Infosys INFY.NS INFO IN

SOFTWARE & SERVICES

NOMURA
EQUITY RESEARCH

Pessimistic overhang cleared by 2Q results

Positive surprise on guidance and strong core performance; reiterate Buy

October 12, 2011

Rating Remains	**Buy**
Target price Increased from 2900	INR 3,100
Closing price October 12, 2011	INR 2679
Potential upside	+15.7%

Action: Positive surprise in guidance allays concerns; reiterate Buy

We believe 2Q results should alleviate investor concerns over 1) structural problems at Infosys; 2) worry over pricing discounts to stay competitive; and 3) ceding of business operations growth to peers arising from a consulting-led focus. Maintenance of guidance in constant currency terms and a more confident tone in commentary suggest to us that the company has put behind it the dual headwinds of 1) re-organization-related drag on revenues; and 2) interim lack of control over margins. We reiterate our Buy rating and continue to prefer Infosys over TCS.

Catalyst: Sustenance of the rupee at better than the assumed USD/INR rate of 45 and improvement in the global macro backdrop

2QFY12: Strong quarter, guidance positive

Infosys' 2QFY12 results were operationally better than expected. The key highlights were: 1) no cut in revenue guidance in constant currency terms (vs Street and our expectations of a cut); and 2) an EPS guidance raise of 10%+ was higher than our expectation on a better rupee forecast and improved operational performance in 2Q.

Valuation: TP raise to INR3,100 on roll forward

We reiterate our Buy rating and raise our target price primarily on a roll forward to 1-yr forward earnings. Our TP of INR3,100 is based on 18x 1-year forward earnings (unchanged). Alternatively, this implies a multiple of 18x FY13F earnings, assuming a USD/INR of 47 (vs base case of 45).

31 Mar	FY11	FY12F		FY13F		FY14F	
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	275,010	323,533	329,802	360,746	363,747	417,485	429,039
Reported net profit (mn)	68,230	77,720	79,479	91,089	90,880	101,553	105,190
Normalised net profit (mn)	68,230	77,720	79,479	91,089	90,880	101,553	105,190
Normalised EPS	119.45	136.08	139.16	159.46	159.09	177.76	184.12
Norm. EPS growth (%)	11.1	13.9	16.5	17.2	14.3	11.5	15.7
Norm. P/E (x)	22.4	N/A	19.3	N/A	16.8	N/A	14.6
EV/EBITDA (x)	15.3	13.5	12.9	11.2	11.1	9.8	9.3
Price/book (x)	5.6	N/A	4.9	N/A	4.1	N/A	3.4
Dividend yield (%)	2.2	N/A	1.5	N/A	1.5	N/A	1.7
ROE (%)	27.1	26.6	27.1	26.5	26.3	24.6	25.2
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Nomura estimates

Key company data: *See page 2 for company data and detailed price/index chart.*

Anchor themes

We believe it is prudent to participate in the sector through companies focused on market share gains, having low client concentration and better operating scope in the current uncertain economic environment.

Nomura vs consensus

Our target price is 7% ahead of Bloomberg consensus; we see consensus estimates being raised post 2Q results.

Research analysts

India Technology/Services & Software

Ashwin Mehta - NFASL
ashwin.mehta@nomura.com
+91 22 4037 4465

Pinku Pappan - NFSPL
pinku.pappan@nomura.com
+91 22 4037 4360

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

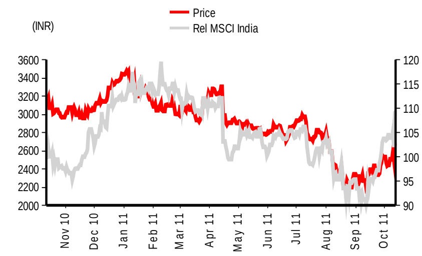
Key data on Infosys

Income statement (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Revenue	**227,420**	**275,010**	**329,802**	**363,747**	**429,039**
Cost of goods sold	-128,855	-158,298	-192,344	-210,937	-252,436
Gross profit	**98,565**	**116,712**	**137,458**	**152,810**	**176,603**
SG&A	-29,005	-35,692	-43,690	-48,022	-55,727
Employee share expense					
Operating profit	**69,560**	**81,020**	**93,768**	**104,788**	**120,877**
EBITDA	**78,610**	**89,640**	**103,260**	**114,832**	**131,302**
Depreciation	-9,050	-8,620	-9,492	-10,043	-10,425
Amortisation					
EBIT	69,560	81,020	93,768	104,788	120,877
Net interest expense					
Associates & JCEs					
Other income	9,430	12,110	16,861	19,272	21,273
Earnings before tax	**78,990**	**93,130**	**110,629**	**124,060**	**142,149**
Income tax	-17,650	-24,900	-31,150	-33,180	-36,959
Net profit after tax	**61,340**	**68,230**	**79,479**	**90,880**	**105,190**
Minority interests	0	0	0	0	0
Other items					
Preferred dividends					
Normalised NPAT	**61,340**	**68,230**	**79,479**	**90,880**	**105,190**
Extraordinary items	1,320	0	0	0	0
Reported NPAT	**62,660**	**68,230**	**79,479**	**90,880**	**105,190**
Dividends	-16,724	-40,096	-26,070	-26,738	-26,738
Transfer to reserves	**45,936**	**28,134**	**53,409**	**64,141**	**78,452**
Valuation and ratio analysis					
FD normalised P/E (x)	24.9	22.4	19.3	16.8	14.6
FD normalised P/E at price target (x)	26.1	23.4	20.1	17.6	15.2
Reported P/E (x)	24.4	22.4	19.3	16.8	14.6
Dividend yield (%)	0.9	2.2	1.5	1.5	1.7
Price/cashflow (x)	25.5	29.7	21.4	20.7	19.4
Price/book (x)	6.6	5.6	4.9	4.1	3.4
EV/EBITDA (x)	18.2	15.3	12.9	11.1	9.3
EV/EBIT (x)	20.6	16.9	14.2	12.2	10.1
Gross margin (%)	43.3	42.4	41.7	42.0	41.2
EBITDA margin (%)	34.6	32.6	31.3	31.6	30.6
EBIT margin (%)	30.6	29.5	28.4	28.8	28.2
Net margin (%)	27.6	24.8	24.1	25.0	24.5
Effective tax rate (%)	22.3	26.7	28.2	26.7	26.0
Dividend payout (%)	26.7	58.8	32.8	29.4	25.4
Capex to sales (%)	4.0	4.5	4.0	3.2	3.3
Capex to depreciation (x)	1.0	1.4	1.4	1.2	1.3
ROE (%)	30.3	27.1	27.1	26.3	25.2
ROA (pretax %)	47.4	51.4	61.3	63.1	65.4
Growth (%)					
Revenue	4.8	20.9	19.9	10.3	17.9
EBITDA	9.3	14.0	15.2	11.2	14.3
EBIT	8.1	16.5	15.7	11.8	15.4
Normalised EPS	4.7	11.1	16.5	14.3	15.7
Normalised FDEPS	4.7	11.2	16.5	14.3	15.8
Per share					
Reported EPS (INR)	109.84	119.45	139.16	159.09	184.12
Norm EPS (INR)	107.52	119.45	139.16	159.09	184.12
Fully diluted norm EPS (INR)	107.40	119.42	139.11	159.05	184.12
Book value per share (INR)	404.03	478.01	549.28	661.45	798.70
DPS (INR)	25.06	60.00	39.02	40.01	46.80

Source: Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	21.9	-4.0	-12.9
Absolute (USD)	17.4	-12.3	-20.5
Relative to index	21.2	6.2	7.5
Market cap (USDmn)	31,422.6		
Estimated free float (%)			
52-week range (INR)	3499/2161.5		
3-mth avg daily turnover (USDmn)	92.47		
Major shareholders (%)			
N R Narayana Murthy	4.5		
Nandan M Nilekani	3.4		

Source: Thomson Reuters, Nomura research

Notes

We expect USD revenue growth of 18%/13% in FY12/13F

Cashflow (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
EBITDA	78,610	89,640	103,260	114,832	131,302
Change in working capital	-1,470	-11,490	-566	-7,801	-15,361
Other operating cashflow	-17,070	-26,680	-31,150	-33,180	-36,959
Cashflow from operations	**60,070**	**51,470**	**71,544**	**73,850**	**78,982**
Capital expenditure	-9,060	-12,240	-13,260	-11,600	-14,000
Free cashflow	**51,010**	**39,230**	**58,284**	**62,250**	**64,982**
Reduction in investments	-37,120	35,450	930	0	0
Net acquisitions					
Reduction in other LT assets			0	0	0
Addition in other LT liabilities	0	0	0	0	0
Adjustments	90	0	0	0	
Cashflow after investing acts	**13,980**	**74,680**	**59,214**	**62,250**	**64,982**
Cash dividends	-16,724	-40,096	-26,070	-26,738	-26,738
Equity issue	2,014	14,406	-12,730	0	0
Debt issue					
Convertible debt issue					
Others	9,340	12,110	16,861	19,272	21,273
Cashflow from financial acts	**-5,370**	**-13,580**	**-21,939**	**-7,467**	**-5,466**
Net cashflow	**8,610**	**61,100**	**37,276**	**54,783**	**59,516**
Beginning cash	96,950	105,560	166,660	203,936	258,719
Ending cash	105,560	166,660	203,936	258,719	318,235
Ending net debt	-105,560	-166,660	-203,936	-258,719	-318,235

Source: Nomura estimates

Notes

Strong cash flow generation to continue

Balance sheet (INRmn)

As at 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Cash & equivalents	105,560	166,660	203,936	258,719	318,235
Marketable securities	37,120	1,670	740	740	740
Accounts receivable	34,940	58,960	67,768	74,743	88,159
Inventories	0	0	0	0	0
Other current assets	41,870	24,390	26,665	30,228	38,786
Total current assets	**219,490**	**251,680**	**299,108**	**364,429**	**445,919**
LT investments	0	0	0	0	0
Fixed assets	53,550	57,170	60,938	62,495	66,069
Goodwill					
Other intangible assets					
Other LT assets	2,000	3,780	3,780	3,780	3,780
Total assets	**275,040**	**312,630**	**363,826**	**430,704**	**515,769**
Short-term debt					
Accounts payable	23,430	18,600	24,827	27,278	32,629
Other current liabilities	21,120	21,000	25,290	25,575	26,837
Total current liabilities	**44,550**	**39,600**	**50,117**	**52,853**	**59,466**
Long-term debt					
Convertible debt					
Other LT liabilities	0	0	0	0	0
Total liabilities	**44,550**	**39,600**	**50,117**	**52,853**	**59,466**
Minority interest	0	0	0	0	0
Preferred stock	0	0	0	0	0
Common stock	2,860	2,860	2,860	2,860	2,860
Retained earnings	227,630	270,170	310,849	374,991	453,443
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	**230,490**	**273,030**	**313,709**	**377,851**	**456,303**
Total equity & liabilities	**275,040**	**312,630**	**363,826**	**430,704**	**515,769**
Liquidity (x)					
Current ratio	4.93	6.36	5.97	6.90	7.50
Interest cover	na	na	na	na	na
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	57.5	62.3	70.3	71.5	69.3
Days inventory	0.0	0.0	0.0	0.0	0.0
Days payable	61.6	48.5	41.3	45.1	43.3
Cash cycle	-4.1	13.9	29.0	26.4	26.0

Source: Nomura estimates

Notes

Cash & equivalents continues to rise

Positive surprise in guidance; investor concerns allayed

Amidst expectations of a 2% cut in USD revenue growth guidance (by the Street and us), Infosys maintained its revenue growth guidance in constant currency terms (the 1% cut in USD revenue growth guidance is on account of USD appreciation against major currencies). Management expressed confidence in its volume and pricing assumptions for FY12F, which we consider commendable given macro worries around a slowing US economy and a debt crisis in Europe. Management expects a reversal of under-spending of client budgets seen in 1HCY 11, part of which was visible in 2Q. Our FY12F USD revenue growth expectations were at the lower end of earlier guidance (18-20%) and remain unchanged.

We believe Infosys' 2Q results will allay key investor concerns around the company's strategy, its leadership and its ability to take on competition. Street worries over these concerns are likely to be allayed, in our view, on:

- Signs of confidence in management commentary: Management expects clients to fully spend their budgets for the year and has not seen any project/program cancellations. The company also reiterated its strategy of high growth with no compromise on margins. Overall, we see the tone of commentary to be more confident and compelling in 2Q compared to the last two quarters, when there was clearly negative news flow (4QFY11 – resignation of board members and organization re-alignment announcement; 1QFY11 – delays in client decision making).
- Strong constant currency USD revenue growth guidance in 3Q (6.4% q-q): Infosys guided for 5.4% q-q revenue growth in 3Q at the top end – which implies 6.4% constant currency growth. Given that 3Q typically has fewer working days compared to 2Q due to the holiday season and is usually affected by client shutdowns, we see this as an indication of 1) a strong pipeline and 2) expectation of better revenues from consulting/ package implementation & products, which were relatively weak in 2Q.
- Hiring guidance maintained: Infosys has maintained its hiring guidance of 45,000 in FY12 – another indicator that Infosys' volume growth assumptions for FY12 remain unchanged. Net employee hiring of 8,262 (6.2% q-q) in 2Q was also strong.
- Good progression in client adds/mining: The number of USD50mn clients for Infosys increased by 3 clients sequentially, and 45 new clients were added in 2Q (against 26 in 1Q).
- Business operations gaining momentum: Street perceptions of Infosys ceding growth to peers in the bread-and-butter business operations segment (61% of revenues and consists of services like Application Development and Maintenance, Testing and Infrastructure Services) are likely to improve on the back of 6% q-q growth in 2Q, in our view.
- Rebound in margins: Margins improved by 200bps in 2Q helped by rupee depreciation and a 1% improvement in constant currency (cc) pricing. Investor concerns around Infosys dropping pricing in order to take on competition are likely to fade, in our view, especially on the back of a 3.5% q-q increase in offshore pricing in 2Q.
- Telecom vertical turning the corner: After posting sequential declines in three consecutive quarters, the Telecom vertical registered 2.5% q-q growth in 2Q. We highlight that the key reason for Infosys' underperformance against TCS in FY11 was due to loss of business from top telecom client BT.

Management commentary: Cautious but more confident

Management made the following comments during the 2Q result announcement:

- 3 major client wins in 2Q; 45 client wins in total, which was the highest addition over the past 5 quarters.
- 7 of 45 client wins in the quarter from Fortune 500 companies; 27 new client wins in Finacle]/platform business.

- USD200mn of TCV (over 3-5 years) won in the products/platform space.
- Client decision making is slower and there is greater scrutiny in longer-term investments, at the same time there has been no program/project cancellations.
- Seeing vendor consolidation in Financial Services for some time, expect vendors with a wider array of services (consulting to downstream application maintenance) to gain. BFSI outlook is much more buoyant than six months ago; seeing spending happen in risk compliance and on consulting engagements.
- Europe will likely continue to expand slower than the company. Infosys is seeing many openings in continental Europe (in BFSI) and expects market share shift from local players to global players. European clients see pressure on costs, so greater likelihood of share gains for global players.
- Infosys is chasing 12 large deals and engaged with 27 transformational deals currently

FY13 hiring suggests no sharp drop off in demand

The 23,000 campus offers Infosys has given out so far for FY13 indicates to us that management is not expecting a steep decline in demand the next year.

On ballpark calculations:

- Fresher addition at 80% strike rate implies a 13% incremental headcount in FY13F over average headcount in FY12F, in our view. Assuming this is available for ~40% of the year for billing, this would give Infosys ~5% growth in volumes, on our estimates.
- Even if the hiring of laterals is 30:70, this implies ~7,500 laterals to be recruited, which could lead to another ~ 5% growth in volumes.
- The company's FY12F hiring plans would lead to a buffer of ~3% of headcount, over what is required to meet the volume growth of 13% in FY12F, on our estimates

In summary, the company is essentially looking at base case double-digit growth in volumes in FY13F, in our view. In addition, the company can further hire freshers from off campus, according to the demand environment. Our assumptions build in USD revenue growth of 13% in FY13F.

Not much to read from rupee EPS guidance raise

Infosys' FY12 INR EPS guidance of INR145 came in 10% higher than our expectations – primarily on assumption of a USD/INR rate of 49 for the remaining two quarters of FY12. While this likely helps improve sentiment on the stock as Infosys is known to be quite conservative, we would not want to read much into that EPS number as currency remains an unknown and we would prefer to err on the side of caution. We assume a USD/INR of ~47 for 2HFY12F and 45 for FY13F (vs a current rate of 49).

Margin performance better than expected; utilization buffer remains

Infosys' EBIT margins for 2Q came in ahead of our expectations with a 210bp q-q improvement to 28.2%. The improvement was mainly due to 3.6% q-q rupee depreciation and a 1% q-q increase in constant currency on a blended basis. The company is guiding for a 50-100bp y-y decline in margins vs earlier guidance of a 250bp decline in FY12F.

Better-than-expected margin performance came in despite a 50bp q-q increase in SGA in 2Q, which was unexpected and could be an indicator of the deal pipeline at Infosys, in our view. EBITDA margins were below expectations in the past 2 quarters leading to Street concerns about a lack of control over margins. 2Q margin performance and management reiterating its focus on high growth with no compromise on margins should help allay investor worries, in our view.

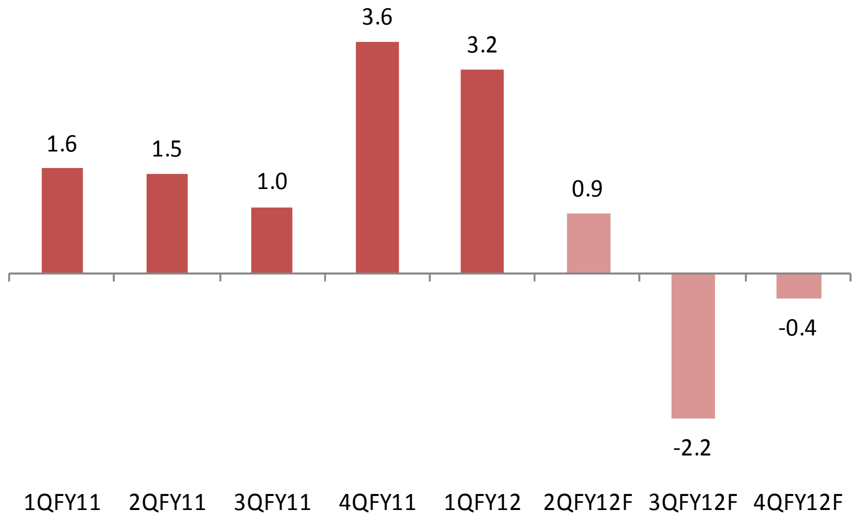
Utilization (incl. trainees) improved only marginally (60bps q-q) in 2Q to 70.2% and is still 400bps below the recent peak.

Infosys vs TCS: Comparisons to look favorable for Infosys going forward

TCS (TCS IN, Neutral) has outperformed Infosys in sequential USD revenue growth for the past 5 quarters and will likely do so in 2QFY12F as well, on our estimates. However, we see the outperformance narrowing from the 3%+ levels over the past 2 quarters and possibly reversing from next quarter onwards as Infosys starts to gain in momentum post the recent organizational restructuring and lower exposure to Europe/BFSI, the first segment to get impacted by the slowdown. Also, we expect better operational performance at Infosys over TCS in 2Q and going forward, given the better operational scope at Infosys and near-term headwinds of promotion-linked wage hikes at TCS.

Fig. 1: TCS outperformance over Infosys in q-q revenue growth – past & projected

TCS outperformance to possibly reverse over the next 3 quarters



Source: Nomura estimates

Estimates unchanged, upside possible if rupee sustains

We have marginally raised our revenue growth assumptions and now look for 18.2%/13.2% growth in FY12/13F. Our margin estimates for FY12F are higher on better USD/rupee assumption. Our FY13F EPS estimates are largely unchanged.

Fig. 2: Earnings revision

	New		Old		Change (%)	
	FY12F	FY13F	FY12F	FY13F	FY12F	FY13F
Revenue (US$ mn)	7,139	8,083	7,126	8,017	0.2	0.8
US$/INR rate	46.2	45.0	45.4	45.0	1.7	0.0
Revenue (Rs bn)	329.8	363.7	323.5	360.7	1.9	0.8
EBITDA margin (%)	31.3	31.6	30.7	31.6	60 bps	0 bps
Tax Rate (%)	28.2	26.7	27.4	26.0	80 bps	70 bps
Diluted EPS (Rs)	139.1	159.1	136.0	159.4	2.3	-0.2

Source: Nomura estimates

Sensitivity of earnings to rupee assumption

Fig. 3: FY13F EPS upside at various USD/INR levels

EPS sensitivity of 1.5% for every 1% rupee depreciation

Infosys	USD/INR @ 45	USD/INR @ 46	USD/INR @ 47	USD/INR @ 48	USD/INR @ 49
FY13 EPS	159	164	169	175	180
Upside	0%	3%	7%	10%	13%

Source: Nomura estimates

Reiterate Buy, TP raised to INR3,100

We continue to derive greater comfort from Infosys' lower exposure to slowdown-prone segments such as BFSI/Europe, better operational scope to counter growth moderation impact and reinforced confidence on business momentum going ahead. Near-term stock movement might, however, remain range-bound on significant recent outperformance. We would use any weakness to add positions in the stock.

We believe our estimates of low-teen growth in FY13F build in moderation in growth expectations. We reiterate our Buy rating and raise our target price primarily on a roll forward to 1-yr forward earnings. Our TP of INR3,100 is based on 18x 1-year forward earnings (unchanged). Alternatively, this implies a multiple of 18x FY13F earnings, assuming a USD/INR of 47.

Our FY13F estimates are based on a USD/INR rate of 45 (vs spot rate of 49+). Better-than-assumed currency rates could provide upside to our earnings estimates. Infosys' EPS sensitivity is ~1.5% for 1% rupee depreciation, on our estimates.

Is all the good news factored in?

Infosys has outperformed the Nifty by 19% and TCS by 9% over the past 1 month. We think further upside is possible given:

- Shift in preference from TCS to Infosys on 1) narrowing of revenue gap outperformance going forward; 2) lower risk profile due to lower BFSI/Europe/client concentration; and 3) better operational scope to counter demand moderation in FY13F.
- In our view, Infosys has put behind it the two headwinds faced over the past 2-3 quarters: 1) lack of capacity in certain growth segments (BFSI/Retail); and 2) re-organization-related drag on revenues. This we believe, should help in increasing momentum going forward.
- Further upside to our estimates is possible if the rupee sustains beyond our assumed levels of 45 to USD.

Valuation methodology

We value Infosys at 18x 1-yr forward earnings of INR170, which is at a 10% discount to its long-term average valuation. We believe the discount is justified on heightened economic uncertainties, increased risk aversion and an impending slowdown.

Risks to our valuation

The key risks are: 1) worse-than-expected slowdown and breakage of pricing discipline in the industry; 2) rupee appreciation; 3) client-specific issues; and 4) an adverse ruling in its pending B1 visa violation case in the US.

2QFY12 result highlights

Infosys' 2QFY12 results were operationally better than expected. The key highlight of the result were: 1) no cut in revenue guidance in constant currency terms (vs Street and our expectations of a cut); and 2) an EPS guidance raise of 10%+ was higher than our expectation on a better rupee forecast and improved operational performance.

- Revenue growth of 4.5% q-q led by 4.4% volume growth.
- Volume growth was 3.2% q-q at onsite and 4.9% at offshore.
- Pricing on a constant currency basis was up 1%; on a blended basis, however, it declined by 1.2% q-q at onsite and increased by 3.5% at offshore. The offshore improvement was largely due to mix improvement (higher realization Application Development grew by 11% q-q).
- Quarterly annualized attrition declined to 21.2% at the consolidated level (from 22% in 1QFY12).
- Among business divisions, business operations grew by 6% q-q, business transformation grew by 2.8% q-q and products and platform space declined by 0.5% q-q.
- Among verticals, BFSI (4.2% q-q growth) and Retail Logistics Consumer & Life sciences (5.4% q-q growth) were the key growth drivers, while Telecom registered a growth quarter (2.5% q-q) after 3 consecutive quarters of sequential decline.
- Europe was marginally up (0.6%) sequentially while N. America registered strong growth of 6.3% q-q.

Fig. 4: Infosys 2QFY12: Actual vs Expected

Key parameters	2QFY12		1QFY12	q-q (%)	2QFY11	y-y (%)
	Actual	Est.				
Revenues (US$ mn)	1,746	1,752	1,671	4.5%	1,496	16.7%
Revenues (Rs mn)	80,990	80,247	74,850	8.2%	69,470	16.6%
EBITDA (Rs mn)	25,160	24,229	21,750	15.7%	23,150	8.7%
EBITDA (%)	31.1%	30.2%	29.1%	200bp	33.3%	-230bp
PAT (Rs mn)	19,060	20,418	17,220	10.7%	17,370	9.7%
Diluted EPS (Rs)	33.4	35.7	30.1	10.7%	30.4	9.7%

Source: Company data, Nomura estimates

Guidance: No change in constant currency guidance

- FY12 USD revenue growth guidance cut to 17-19% (vs 18-20% earlier). In constant currency terms, the original guidance of 18-20% is to remain as the cut is on account of the USD appreciating against the EUR and GBP. Management maintained its pricing and volume assumptions for FY12. Our expectation was for a reduction in revenue growth guidance to 16-18%.
- EPS guidance raised to INR143-145 for FY12 (vs expectations of INR135 and earlier guidance of INR128-130). Infosys used USD/INR rate of 49 for guidance (vs 44.5 earlier).
- 3Q USD revenue growth guidance at 3.2-5.4% q-q. We were estimating the company to guide for 3-4% q-q growth for 3Q.
- 3Q EPS guidance of INR39.2 at the top end implies 17.5% q-q.
- FY12F USD EPS was raised to USD3.06 at the higher end (vs USD2.92 earlier)

Fig. 5: Infosys 3QFY12 and FY12 guidance

	3QFY12F	FY12F	FY12F-Old
Revenue (Rs bn)	88.26-90.12	335.01-340.88	317.77-323.11
Sequential growth (%)	9.0%-11.3%	21.8%-24.0%	15.5%-17.5%
EPS (Rs)	38.51-39.20	143.02-145.26	128.2-130.08
Annual growth (%)	23.6%-25.8%	19.7%-21.6%	7.3%-8.9%
Revenue (US$ bn)	1.802-1.840	7.08-7.20	7.13-7.25
Sequential growth (%)	3.2%-5.4%	17.1%-19.1%	18%-20%
EPS (US$)	0.79-0.80	3.02-3.06	2.88-2.92

Source: Company data, Nomura research

Fig. 6: Infosys FY12F guidance: implied 4Q quarterly growth rates

Lower end	1QFY12A	2QFY12A	3QFY12	4QFY12	FY12
US$ revenue	1,671	1,746	1,802	1,861	7,080
q-q growth (%)	4.3	4.5	3.2	3.3	17.2
INR EPS	30.1	33.4	38.5	41.0	143.0
q-q growth (%)	-5.3	10.7	15.4	6.5	19.7

Higher end	1QFY12A	2QFY12A	3QFY12	4QFY12	FY12
US$ revenue	1,671	1,746	1,840	1,943	7,200
q-q growth (%)	4.3	4.5	5.4	5.6	19.2
INR EPS	30.1	33.4	39.2	42.6	145.3
q-q growth (%)	-5.3	10.7	17.5	8.6	21.6

Source: Company data, Nomura research

Positive highlights of the results

- 3.5% q-q increase in offshore pricing in cc terms.
- Strong growth in the US region at 6.3% q-q.
- Strong growth in business operations — up 6% q-q (last qtr 4.3%); Street perceptions of Infosys underperforming TCS in this segment is likely to improve, in our view.
- Quarterly annualized attrition coming down 80bps q-q to 21.2%.
- Strong headcount growth of 6.2% with improvement in utilization, too.
- BPO profitability back on track at 14% from 10% (net profit margin).
- Telecom turning positive with 2.5% q-q growth, key reason for the underperformance against TCS in FY11.

Other highlights

- Cash and equivalents (including certificates of deposit) at end-2Q were USD3.8bn (INR326 per share).
- Total headcount at the end of 1Q was 141,822 (net addition of 8,262 people).
- 45 clients were added during the quarter.
- DSO days improved by 2 days sequentially to 61 during 2Q.

Fig. 7: Quarterly performance and estimates

Y/E MARCH	FY11				FY12				FY11	FY12F
(Rs mn)	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3QF**	**4QF**		
Revenues (US$ mn)	**1,358**	**1,496**	**1,585**	**1,602**	**1,671**	**1,746**	**1,830**	**1,892**	**6,041**	**7,139**
q-q change (%)	*4.8*	*10.2*	*5.9*	*1.1*	*4.3*	*4.5*	*4.8*	*3.4*	*25.7*	*18.2*
Revenues	**61,980**	**69,470**	**71,060**	**72,500**	**74,850**	**80,990**	**86,923**	**87,039**	**275,010**	**329,802**
q-q change (%)	*4.3*	*12.1*	*2.3*	*2.0*	*3.2*	*8.2*	*7.3*	*0.1*	*20.9*	*19.9*
Direct Expenses	34,410	37,540	38,470	40,120	43,540	45,090	47,467	47,704	150,540	183,801
SG&A	7,950	8,780	8,960	9,140	9,560	10,740	11,213	11,228	34,830	42,741
EBITDA	**19,620**	**23,150**	**23,630**	**23,240**	**21,750**	**25,160**	**28,243**	**28,107**	**89,640**	**103,260**
EBITDA margin (%)	*31.7*	*33.3*	*33.3*	*32.1*	*29.1*	*31.1*	*32.5*	*32.3*	*32.6*	*31.3*
Other Income	2,390	2,670	2,900	4,150	4,430	3,870	4,455	4,106	12,110	16,861
Depreciation	2,070	2,170	2,160	2,220	2,230	2,350	2,439	2,473	8,620	9,492
PBT	**19,940**	**23,650**	**24,370**	**25,170**	**23,950**	**26,680**	**30,259**	**29,740**	**93,130**	**110,629**
Provision for Tax	5,060	6,280	6,570	6,990	6,730	7,620	8,473	8,327	24,900	31,150
Tax rate (%)	*25.4*	*26.6*	*27.0*	*27.8*	*28.1*	*28.6*	*28.0*	*28.0*	*26.7*	*28.2*
PAT before EO	**14,880**	**17,370**	**17,800**	**18,180**	**17,220**	**19,060**	**21,787**	**21,413**	**68,230**	**79,479**
q-q change (%)	*0.2*	*16.7*	*2.5*	*2.1*	*-5.3*	*10.7*	*14.3*	*-1.7*	*11.2*	*16.5*
Extra-ordinary Items (EO)	0	0	0	0	0	0	0	0	0	0
PAT aft. minority and EO	**14,880**	**17,370**	**17,800**	**18,180**	**17,220**	**19,060**	**21,787**	**21,413**	**68,230**	**79,479**
q-q change (%)	*-8.0*	*16.7*	*2.5*	*2.1*	*-5.3*	*10.7*	*14.3*	*-1.7*	*8.9*	*16.5*
Diluted EPS (Rs)	**26.0**	**30.4**	**31.2**	**31.8**	**30.1**	**33.4**	**38.1**	**37.5**	**119.4**	**139.1**

Source: Company data, Nomura research

Fig. 8: Sequential growth matrix

US$ q-q revenue growth (%)	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Verticals					
Banking and Financial Services	7%	10%	3%	3%	5%
Energy & Utilities	14%	3%	-4%	3%	4%
Insurance	11%	4%	-13%	6%	2%
Manufacturing	7%	10%	5%	4%	4%
Retailing	21%	7%	1%	16%	1%
Telecom	4%	-1%	-4%	-7%	3%
Transportation	8%	6%	17%	-11%	-1%
Service Lines					
Development	2%	6%	4%	5%	11%
Maintenance	8%	2%	-1%	6%	1%
Infrastructure Management	0%	2%	3%	1%	3%
System Integration	46%	4%	10%	8%	0%
Consulting & Package Implementation	14%	6%	-1%	3%	2%
Testing	15%	6%	-3%	7%	14%
Engg Services	29%	10%	-5%	39%	11%
Business process management	9%	5%	1%	1%	4%
Products	0%	32%	3%	-7%	-9%
Geography					
North America	8%	4%	0%	5%	6%
Europe	18%	5.9%	2.5%	1%	1%
India	36%	11%	24%	0%	-12%
RoW	6%	16%	3%	8%	5%

Source: Company data, Nomura research

Scenario analysis: What if the US and Europe slip back into recession?

As the markets have been signaling that risks to our baseline forecasts are on the downside, our global economics team have considered a bear case economic scenario, most obviously triggered by a market meltdown, but the fragile state of the advanced economies leaves them vulnerable to unforeseen shocks or policy errors. For details, see Global Weekly Economic Monitor, 12 August 2011, and Global market turbulence: Implications for Asia, 9 August 2011.

The bear case scenario assumes:

- The US and Euro area slip back into recession, with US GDP averaging -1% saar in 2H11 and Euro GDP averaging -3% before recovering to around 2% growth in 2012.
- The CRB commodity price index falls 15% between now and year-end, but starts rising back again through 2012 reaching current levels by end-2012.

If there is a market meltdown and recessions in the US and euro area, we have no doubt that initially many economies in the region would be hit hard again in an echo of the global financial crisis, as non-linear effects start to kick in, notably financial decelerator effects, multiplier effects of weakening exports on domestic capex and jobs, and capital flight. However, less disturbing this time around are the two factors that there is less leverage in the financial system (less room for capital flight) and less chance of Asian trade finance drying up, as the world's central banks have most likely learnt the need to provide ample USD liquidity through FX swap arrangements.

In this scenario, we find Hong Kong, Singapore, Malaysia and Taiwan to be among the most vulnerable. But, as in 2009, we would expect that, over time, powerful tailwinds would develop, allowing Asia to bounce back before other regions. These tailwinds include a likely further decline in commodity prices and the ample room Asia has to ease monetary and fiscal policies – more so than any other region. In our bear case scenario, we would expect the Fed to resort to further quantitative easing, which once again would likely precipitate strong net capital inflows into Asia, attracted by stronger growth, superior fundamentals and higher interest rates relative to other regions.

What if things get even worse than we can foresee? Although our global economics team does not see such a situation as plausible at the moment, they have run an extreme-case scenario analysis to provide some perspective. This extreme scenario assumes:

- US GDP averaging about -4% saar in 2H11 and Euro GDP averaging -6.5% before recovering to around 1% growth in 2012.
- CRB commodity price index falls 40% between now and year-end, and stays at the lower level through 2012.

The table below summarises both the official bear case and the hypothetical extreme case scenarios.

Fig. 9: **Real GDP growth forecasts: baseline and downside scenarios**

	2011F			2012F		
	Base case	Bear case	Extreme case	Base case	Bear case	Extreme case
Australia	2.2	1.5	0.9	4.6	3.5	3.3
China	9.5	9.0	8.5	8.6	8.8	6.0
Hong Kong	5.4	4.4	3.4	4.5	4.0	1.2
India	7.7	7.0	6.5	7.9	7.6	7.0
Indonesia	6.5	6.0	4.8	7.0	6.8	4.0
Malaysia	4.7	4.0	1.0	5.1	4.8	-0.4
New Zealand	2.2	1.8	1.4	3.5	3.5	3.3
Philippines	5.1	4.7	3.3	5.7	5.3	2.4
Singapore	5.6	4.3	1.5	5.3	5.1	-1.8
South Korea	3.5	2.5	1.5	5.0	5.0	2.5
Taiwan	4.5	3.6	2.4	5.0	4.9	0.9
Thailand	4.1	3.5	0.6	4.7	4.5	-0.5
Vietnam	6.4	6.0	4.5	6.9	6.5	4.2
Asia ex Japan, Aus, NZ	7.9	7.2	6.4	7.6	7.6	5.1

Source: CEIC and Nomura Global Economics. Units: % y-o-y

The global bear case does not look bad for much of Asia and in fact is marginally better than the base case for China in 2012 because we would expect a V-shape rebound for the region thanks to the likely decline in commodity prices and the ample room Asia has to ease monetary and fiscal policies. We would also expect the Fed to resort to further quantitative easing, which once again would likely precipitate strong net capital inflows into Asia. In the extreme case, however, even these strengths will be tested.

What does this mean for our companies?

In the above-mentioned bear case scenario, we have assumed a 1% pricing cut in the quarter ending March 2012, followed by a 4% cut in the quarter ending June 2012. Under the extreme scenario, we have assumed a 2% pricing cut in the quarter ending March 2012, followed by an 8% cut in the quarter ending June 2012. We have assumed 10%/20% de-rating in P/E multiples in the bear case/extreme case scenarios, respectively.

Fig. 10: Earnings and Price target sensitivity

	Base case	Bear case	Downside %	Extreme case	Downside %
Infosys					
FY12F EPS	139	138	-1%	137	-1%
FY13F EPS	159	140	-12%	121	-24%
12-m target price	3100	2400	-23%	1830	-44%

Source: Nomura estimates

Appendix A-1

Analyst Certification

We, Ashwin Mehta and Pinku Pappan, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Infosys	INFO IN	INR 2679	12-Oct-2011	Buy	Not rated	123
Tata Consultancy Services	TCS IN	INR 1079	12-Oct-2011	Neutral	Not rated	

Disclosures required in the U.S.

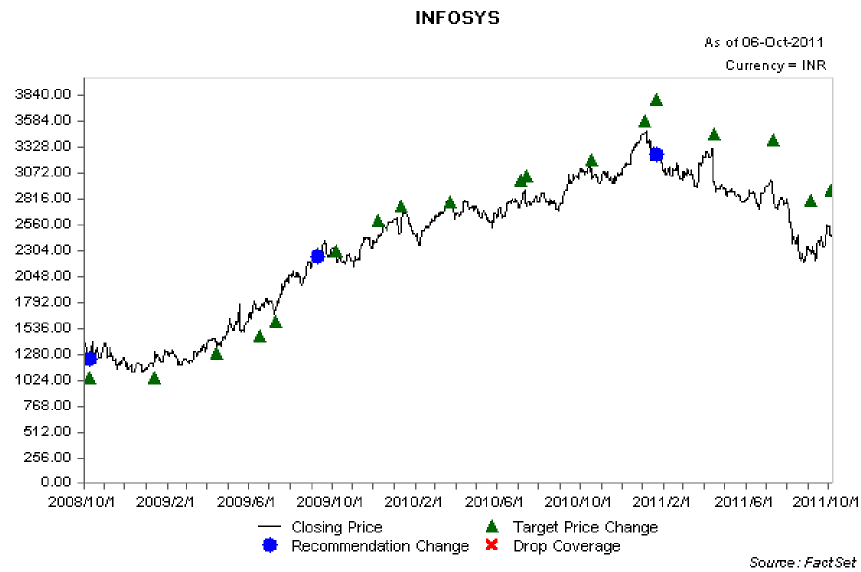
123 **Market Maker - NSI**
Nomura Securities International Inc. makes a market in securities of the company.

Previous Rating

Issuer name	Previous Rating	Date of change
Infosys	Neutral	21-Jan-2011
Tata Consultancy Services	Buy	22-Dec-2009

Infosys (INFO IN) **INR 2679 (12-Oct-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
04-Oct-2011		2900.00	2440.70
05-Sep-2011		2800.00	2263.85
12-Jul-2011		3400.00	2794.25
17-Apr-2011		3450.00	2988.80
21-Jan-2011		3800.00	3248.75
21-Jan-2011	Buy		3248.75
05-Jan-2011		3580.00	3467.65
18-Oct-2010		3200.00	3107.00
14-Jul-2010		3040.00	2742.30
06-Jul-2010		3000.00	2786.50
25-Mar-2010		2780.00	2805.60
12-Jan-2010		2740.00	2587.45
09-Dec-2009		2600.00	2456.15
09-Oct-2009		2300.00	2178.35
10-Sep-2009		2271.00	2235.10
10-Sep-2009	Neutral		2235.10
10-Jul-2009		1598.00	1726.50
17-Jun-2009		1458.00	1710.50
15-Apr-2009		1283.00	1370.80
13-Jan-2009		1049.00	1230.20
10-Oct-2008		1042.00	1226.70
10-Oct-2008	Reduce		1226.70

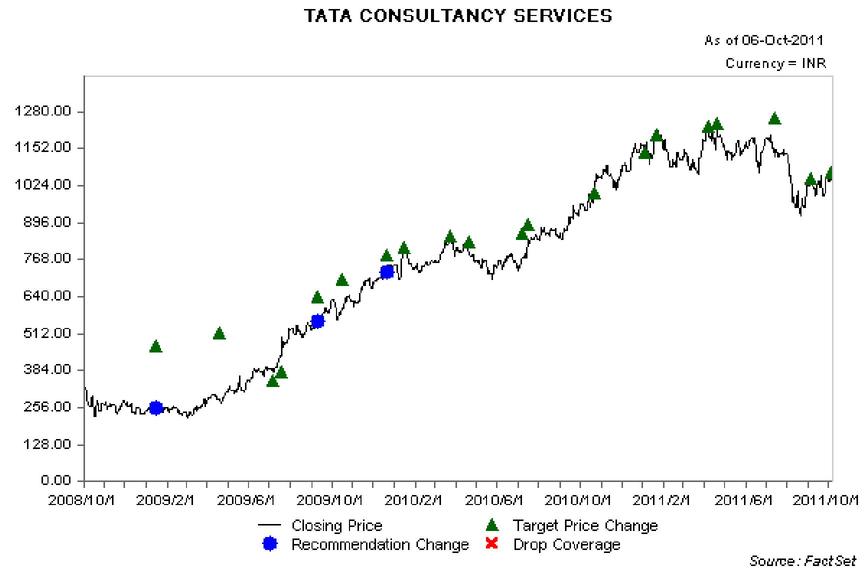
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Infosys at 18x one-year forward earnings of INR170, which is at a 10% discount to its long-term average valuation. We believe the discount is justified on heightened economic uncertainties, increased risk aversion and an impending slowdown. Our target price is INR3,100.

Risks that may impede the achievement of the target price The key risks are: 1) worse-than-expected slowdown and breakage of pricing discipline in the industry; 2) rupee appreciation; 3) client-specific issues; and 4) an adverse ruling in its pending B1 visa violation case in the US.

Tata Consultancy Services (TCS IN) **INR 1079 (12-Oct-2011)** Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
04-Oct-2011		1070.00	1045.95
05-Sep-2011		1050.00	1027.80
14-Jul-2011		1260.00	1125.25
21-Apr-2011		1240.00	1191.65
08-Apr-2011		1230.00	1194.90
21-Jan-2011		1200.00	1212.60
05-Jan-2011		1140.00	1158.05
22-Oct-2010		1000.00	1040.10
16-Jul-2010		890.00	832.40
08-Jul-2010		860.00	776.60
20-Apr-2010		830.00	789.60
25-Mar-2010		850.00	829.30
15-Jan-2010		810.00	791.80
22-Dec-2009		785.00	724.10
22-Dec-2009	Neutral		724.10
17-Oct-2009		700.00	599.00
10-Sep-2009		640.00	556.40
10-Sep-2009	Buy		556.40
20-Jul-2009		383.00	500.10
06-Jul-2009		349.00	381.60
20-Apr-2009		517.00	280.20
15-Jan-2009		469.00	255.00
15-Jan-2009	Reduce		255.00

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of INR1,070 is based on 18x our FY13F earnings forecast of INR59.4. Our target multiple is in line with the stock's historical average, reflecting heightened economic uncertainties and risk on its high BFSI and Europe exposure.

Risks that may impede the achievement of the target price The key risks include: 1) faster-than-anticipated slowdown and breakage of pricing discipline in the industry; 2) rupee appreciation; 3) client-specific issues; and 4) deterioration in management commentary from the current position of no issues on demand.

Important Disclosures

Online availability of research and additional conflict-of-interest disclosures

Nomura Equity Research is available on nomuranow.com, Bloomberg, Capital IQ, Factset, Reuters and ThomsonOne.
Important disclosures may be accessed through the left hand side of the Nomura Disclosure web page http://go.nomuranow.com/research/globalresearchportal or requested from Nomura Securities International, Inc., on 1-877-865-5752. If you have any difficulties with the website, please email grpsupport-eu@nomura.com for technical assistance.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities. Unless otherwise noted, the non-US analysts listed at the front of this report are not registered/qualified as research analysts under FINRA/NYSE rules, may not be associated persons of NSI, and may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Industry Specialists identified in some Nomura International plc research reports are employees within the Firm who are responsible for the sales and trading effort in the sector for which they have coverage. Industry Specialists do not contribute in any manner to the content of research reports in which their names appear. *Marketing Analysts* identified in some Nomura research reports are research analysts employed by Nomura International plc who are primarily responsible for marketing Nomura's Equity Research product in the sector for which they have coverage. Marketing Analysts may also contribute to research reports in which their names appear and publish research on their sector.

Distribution of ratings (US)

The distribution of all ratings published by Nomura US Equity Research is as follows:
39% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 8% of companies with this rating are investment banking clients of the Nomura Group*.
54% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 3% of companies with this rating are investment banking clients of the Nomura Group*.
7% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 0% of companies with this rating are investment banking clients of the Nomura Group*.
As at 30 September 2011. **The Nomura Group as defined in the Disclaimer section at the end of this report.*

Distribution of ratings (Global)

The distribution of all ratings published by Nomura Global Equity Research is as follows:
49% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 41% of companies with this rating are investment banking clients of the Nomura Group*.
41% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 50% of companies with this rating are investment banking clients of the Nomura Group*.
10% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 20% of companies with this rating are investment banking clients of the Nomura Group*.
As at 30 September 2011. **The Nomura Group as defined in the Disclaimer section at the end of this report.*

Explanation of Nomura's equity research rating system in Europe, Middle East and Africa, US and Latin America for ratings published from 27 October 2008

The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to target price defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of '**Suspended**', indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including, but not limited to, when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.
Benchmarks are as follows: **United States/Europe**: Please see valuation methodologies for explanations of relevant benchmarks for stocks (accessible through the left hand side of the Nomura Disclosure web page: http://go.nomuranow.com/research/globalresearchportal);**Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology.

SECTORS

A '**Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A '**Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.
Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.
A '**Buy'** recommendation indicates that potential upside is 15% or more. A '**Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%. A '**Reduce'** recommendation indicates that potential downside is 5% or more. A rating of '**Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.

Securities and/or companies that are labelled as '**Not rated'** or shown as '**No rating'** are not in regular research coverage of the Nomura entity identified in the top banner. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies.

SECTORS

A '**Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation. A '**Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation. A '**Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

STOCKS

A rating of '1' or '**Strong buy'**, indicates that the analyst expects the stock to outperform the Benchmark by 15% or more over the next six months. A rating of '2' or '**Buy'**, indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months. A rating of '3' or '**Neutral'**, indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months. A rating of '4' or '**Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months. A rating of '5' or '**Sell'**, indicates that the analyst expects the stock to underperform the Benchmark by 15% or more over the next six months.
Stocks labeled '**Not rated'** or shown as '**No rating'** are not in Nomura's regular research coverage. Nomura might not publish additional research reports concerning this company, and it undertakes no obligation to update the analysis, estimates, projections, conclusions or other information contained herein.

SECTORS

A '**Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next six months. A '**Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months. A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.
Benchmarks are as follows: **Japan**: TOPIX; **United States**: S&P 500, MSCI World Technology Hardware & Equipment; **Europe**, by sector - *Hardware/Semiconductors*: FTSE W Europe IT Hardware; *Telecoms*: FTSE W Europe Business Services; *Business Services*: FTSE W Europe; *Auto & Components*: FTSE W Europe Auto & Parts; *Communications equipment*: FTSE W Europe IT Hardware; **Ecology Focus**: Bloomberg World Energy Alternate Sources; **Global Emerging Markets**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.
A '**Strong buy'** recommendation indicates that upside is more than 20%. A '**Buy'** recommendation indicates that upside is between 10% and 20%. A '**Neutral'** recommendation indicates that upside or downside is less than 10%. A '**Reduce'** recommendation indicates that downside is between 10% and 20%. A '**Sell'** recommendation indicates that downside is more than 20%.

SECTORS

A '**Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation. A '**Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation. A '**Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Target Price

A Target Price, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

Disclaimers

Additional information available upon request

NIPlc and other Nomura Group entities manage conflicts identified through the following: their Chinese Wall, confidentiality and independence policies, maintenance of a Restricted List and a Watch List, personal account dealing rules, policies and procedures for managing conflicts of interest arising from the allocation and pricing of securities and impartial investment research and disclosure to clients via client documentation.

Disclosure information is available at the Nomura Disclosure web page:

http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx