

## Infosys Technologies

Still a few wrinkles to iron out; some are new and some are old; reiterate Neutral

**Infosys still has a few wrinkles to iron out, in our view. Some of these are historic, while a few have arisen in the context of the emerging competitive paradigm** thanks to the renewed aggression of peers such as TCS (OW) and Cognizant (covered by our US analyst Tien-Tsin Huang, OW). In this report, we articulate some of them.

- **Missing on the growth of high-potential horizontals:** Infosys' traction in several high-potential emerging service lines, such as infra management, BPO and testing services, is not keeping up with peers. We concede that the company has done well in consulting and enterprise solutions, in which it remains the clear leader, but believe that it will take much more broad-based growth to move the needle on a revenue base as large as Infosys'.
- **Pricing premium has ebbed since the downturn:** In well established verticals such as BFSI and telecom, the room to have preferential pricing is limited. This puts the onus of revenue growth on volumes in the future – in this area, Infosys has lagged behind peers such as TCS, in both good and tough times.
- **The goal of senior executive empowerment is laudable, but multiple responsibilities for business heads might be causing under-performance in some areas:** Our finding is that at least one of the responsibility areas in the portfolio has under-performed peers, and multiple responsibilities might have something to do with this. For example, retail vertical has performed in line with peers, but infra management, which is managed by the same person, has significantly underperformed.
- **Less effective in multi-vendor situations and lack of willingness to expand geographical footprint:** Most of the larger clients are increasingly working with multiple vendors. Our channel checks suggest that, generally, Infosys' peers have increased market share in multi-vendor deals. Also, Infosys has been reluctant to enhance its global footprint on par with peers. China is an exception, but a presence here cannibalizes India-based delivery (leading to the question of whether at this stage the China strategy is more a substitute or an enhancement).
- We recognize that none of the above reasons are significant in isolation, but we think they add up to a noticeable impact. **Following our upgrade of Wipro to OW on Feb. 21, and our long-standing OW on TCS, our preferred stocks in the Indian IT sector are TCS (OW) and Wipro (OW). We reiterate our Neutral rating on Infosys.**

Reuters: INFY.BO/INFY.US, Bloomberg: INFO IN/INFY US

Rs MM, YE Mar	FY10A	FY11E	FY12E	FY13E	Rs m	FY10A	FY11A	FY12E	FY13E	52-Week range Rs	2,485-3,500
Sales	227,553	276,127	340,242	417,985	Y/E BPS (Rs)	419.6	494.4	608.9	755.0	Shares Outstg	574Mn
Operating Profit	69,151	82,554	102,103	123,940	ROE (%)	28.7	25.9	27.1	26.6	Date of price	03-Mar-11
EBITDA	78,201	91,444	113,097	136,269	ROIC (%)	52.0	49.2	50.6	53.2	Avg daily volume	1.1Mn
Net profit	62,214	68,858	85,863	104,001	Qtr EPS (Rs)	1Q	2Q	3Q	4Q	Index (Sensex)	18,490
EPS (Rs)	108.5	120.0	149.6	181.2	EPS (FY11)E	25.9	30.3	31.0	32.8	Free float	81%
P/E (x)	27.9	25.2	20.2	16.7	EPS (FY12) E	33.4	36.4	38.7	41.1	Dividend Yld (%)	1%
EV/EBITDA (x)	20.5	17.5	14.2	11.7	Local	1M	3M	12M		Avg daily value	79.16 Mn
P/BV (x)	7.2	6.1	5.0	4.0	Abs. Perf.(%)	-2.9	-3.2	13.5		Exchange rate	US\$45.0/US\$1
Cash	158,587	172,995	222,434	290,453	Rel. Perf.(%)	-3.1	4.4	4.7		Market Cap	US\$38.6B
Equity	240,709	283,778	349,495	433,350	Market Cap	Rs	1,737B	US\$	38.6B	ADR	US\$66.85

Source: Company data, Bloomberg, J.P. Morgan estimates.

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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## Neutral

INFY.BO, INFO IN

Price: Rs3,026.10

Price Target: Rs3,400.00

India

eBusiness/IT Services

Viju K George<sup>AC</sup>

(91-22) 6157-3597

viju.k.george@jpmorgan.com

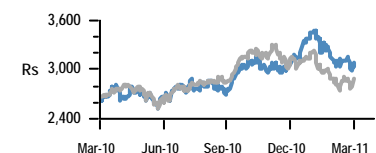
Amit Sharma

(91-22) 6125 0841

amit.d.sharma@jpmorgan.com

J.P. Morgan India Private Limited

### Price Performance



	YTD	1m	3m	12m
Abs	-12.1%	-2.9%	-3.2%	13.5%
Rel	-2.0%	-3.1%	4.4%	4.7%

### Infosys has lagged behind peers in some emerging and growing businesses

In many of the emerging areas, such as infra management, testing services and BPO, Infosys has lagged behind TCS in terms of revenue growth. Infosys's infra management top line grew by only 13.6% in CY10, compared to 39.5% for TCS, while BPO services grew by 17% compared to 23% for TCS. The one area in which Infosys has done particularly well is enterprise solutions (package or ERP implementation), which grew by 31.4% in CY10 (Jan-Dec 10 over Jan-Dec 09), but one spark does not necessarily create a flame.

Table 1: Infosys has underperformed TCS in a number of emerging businesses

CY10 revenue growth	Infosys	TCS
Infrastructure Management	13.6%	39.5%
BPO	17.0%	23.0%
Testing Services	43.5%	79.6%

Source: Company reports.

### Multiple responsibilities for management might be contributing to relative under-performance in some areas

We observe that in several cases where members of the executive council management have multiple responsibilities, one or two of portfolios has tended to suffer. For example, in 2010, 1) Infosys's telecom revenue growth under-performed TCS's; 2) Infosys's market share in large, strategic deals was lower than TCS's, while the BFSI vertical managed by the same person outperformed that of TCS; 3) the performance of Infosys's retail vertical is comparable to that of TCS, but Infosys's high-growth infrastructure management has performed well below that of peers such as TCS/HCLT. Thus, it is possible that the multiple responsibilities could be affecting the functioning of one or two portfolios under their charge.

Table 2: Vesting multiple responsibilities in a single manager may have resulted in Infosys lagging behind in at least one area of the manager's portfolio (red indicates lagging performance)

Revenue growth in Jan-Dec 10 over Jan-Dec 09		Infosys	TCS
BPO	Amitabh Chaudhry*	17.0%	23.0%
Testing		43.5%	79.6%
BFSI	Ashok Vemuri	31.7%	26.6%
Strategic Global Sourcing Strength**		Moderate	Strong
Energy & Utilities	Prasad Thrikutam	27.2%	69.2%
System Integration		56.1%	
Retail	Pravin Rao	27.2%	26.0%
Transportation & Logistics		2.9%	21.2%
Infrastructure Management		13.6%	39.5%
Telecom	Subhash Dhar	3.1%	12.0%
Alliances and marketing		NA	NA
Manufacturing	Srinivas B.G.	21.3%	8.7%
Engineering Solutions		16.3%	16.1%

Source: Company report, J.P. Morgan Note - \* He has recently left Infosys \*\*According to TPI, a third-part deal consulting intermediary

### Pricing premium an outdated notion

The notion of pricing premium in the industry is an outdated one that puts the onus of growth on volumes rather than pricing. Infosys's pricing premium has certainly ebbed during the downturn. While the pricing improvement is still there for Infosys,

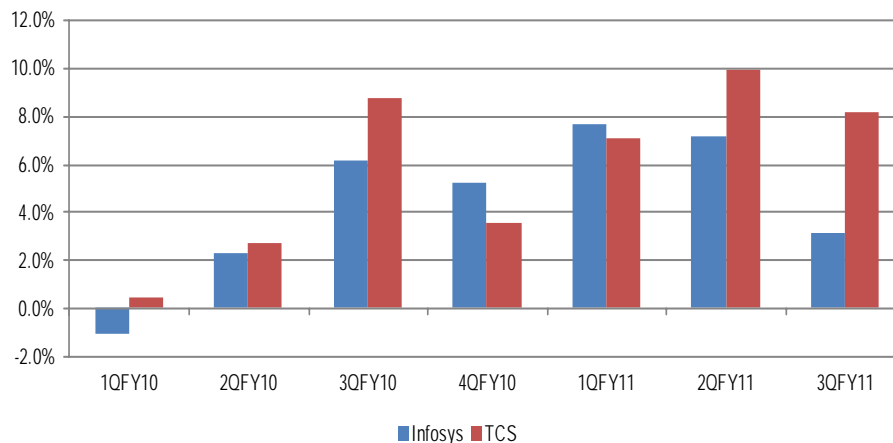
it is in line with peers (non-differentiated pricing gains). We have noted that TCS has grown volumes ahead of Infosys in good and bad times.

Figure 1: Offshore pricing premium Infosys selectively enjoyed earlier has ebbed



Source: Company reports, J.P. Morgan

Figure 2: Infosys has lagged TCS on volume growth in five of the last seven quarters



Source: Company reports, J.P. Morgan

**Track record in multi-vendor situations compared to peers can improve**

Generally, the anecdotal feedback has been that Infosys does not fare as well in multi-vendor situations as Cognizant/TCS which have tended to gain market share with shared accounts. The number of top/key relationships confined to just one or two vendors is diminishing, and firms must know how to compete when their turf is threatened. Clients, particularly in verticals where clients are very large and lumpy, such as Telecom, increasingly adopt multi-vendor procurement strategies, leveling prices in the bargain.

**Less ready to branch out geographically**

Infosys has been reluctant to branch out to emerging locations or build out local delivery centers outside the US/Europe. However, we believe that doing so is a necessary characteristic of the Indian IT enterprise of tomorrow.

It is true that Infosys has built out in China ahead of peers, with 2,800 employees, However, we believe that over 60% of this number caters to (a) global clients, which cannibalizes the India-based opportunity of working with global clients, or (b) caters to BPO, which is low on both per-capita revenues per person and operating margins. With regard to TCS's China presence (1,500 employees), the intent is to serve the local market or create better inroads into the Japanese/Korean markets through its China presence (thus, little or no cannibalization).

**JPM Q-Profile**

**Infosys Technologies Ltd. (INDIA / Information Technology)**

As Of: 25-Feb-2011

**Global Equity Quantitative Analysis**

Quant\_Strategy@jpmorgan.com

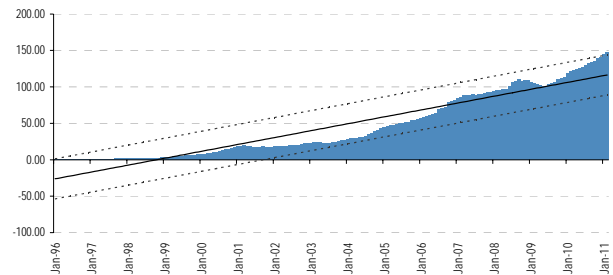
**Local Share Price**

Current: 3082.20



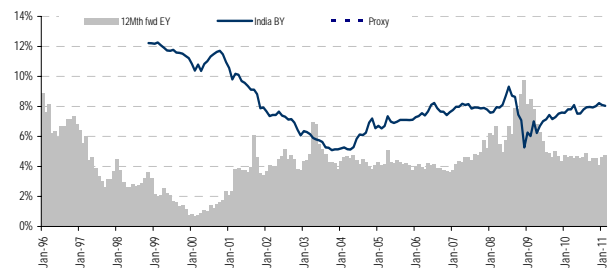
**12 Mth Forward EPS**

Current: 146.90



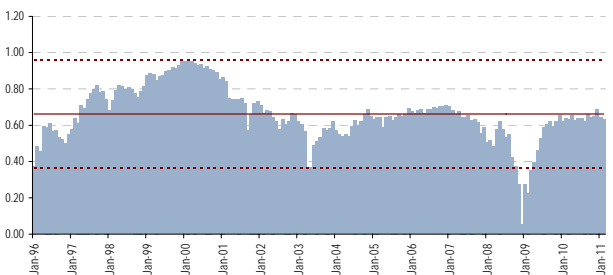
**Earnings Yield (& local bond Yield)**

Current: 5%



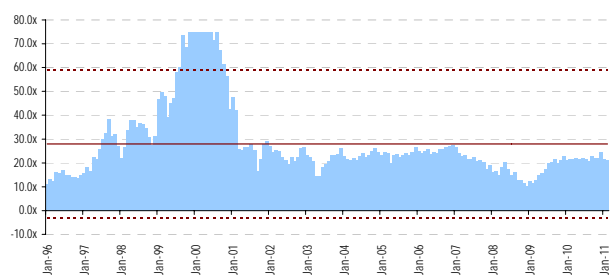
**Implied Value Of Growth\***

Current: 63.43%



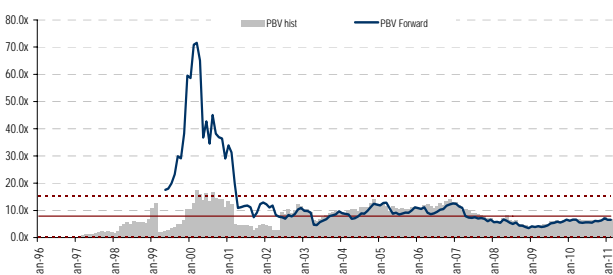
**PE (1Yr Forward)**

Current: 21.0x



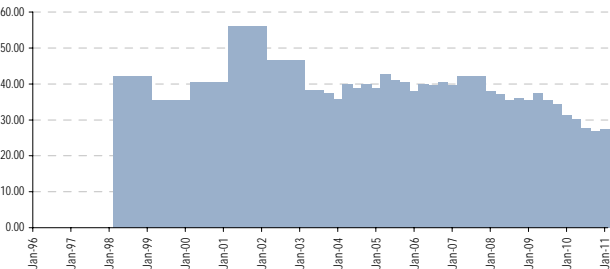
**Price/Book Value**

Current: 6.9x



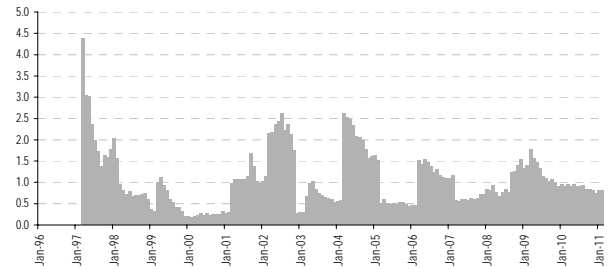
**ROE (Trailing)**

Current: 27.46



**Dividend Yield (Trailing)**

Current: 0.80



**Summary**

Infosys Technologies Ltd.		SEDOL		6205122		As Of:		25-Feb-11			
INDIA						Local Price:		3,082.20			
Information Technology						EPS:		146.90			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	20.98x	10.28	75.00	23.26	27.92	59.02	-3.18	-51%	257%	11%	33%
P/BV (Trailing)	6.92x	0.81	17.67	7.01	7.91	15.44	0.39	-88%	155%	1%	14%
Dividend Yield (Trailing)	0.80	0.17	4.37	0.91	1.06	2.43	-0.31	-79%	445%	13%	32%
ROE (Trailing)	27.46	26.99	56.08	39.74	39.86	52.75	26.96	-2%	104%	45%	45%
Implied Value of Growth	63.4%	0.05	0.95	0.65	0.66	0.96	0.37	-92%	50%	2%	4%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

\* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

## Infosys Technologies: Summary of Financials

Profit and Loss Statement						Ratio Analysis					
Rs in millions, year end Mar	FY08	FY09	FY10	FY11E	FY12E	Rs in millions, year end Mar	FY08	FY09	FY10	FY11E	FY12E
Revenues	166,906	216,823	227,553	276,127	340,242	Gross margin	41.2%	42.2%	42.8%	42.4%	42.0%
Cost of goods sold	98,119	125,266	130,216	159,017	197,310	EBITDA margin	31.1%	33.0%	34.4%	33.1%	33.2%
Gross Profit	68,787	91,557	97,337	117,110	142,932	Operating margin	27.5%	29.4%	30.4%	29.9%	30.0%
R&D expenses	0	0	0	0	0	Net margin	26.9%	26.9%	27.3%	24.9%	25.2%
SG&A expenses	-22,824	-27,704	-28,185	-34,555	-40,829	R&D/sales	0.0%	0.0%	0.0%	0.0%	0.0%
Operating profit (EBIT)	45,963	63,853	69,151	82,554	102,103	SG&A/Sales	13.7%	12.8%	12.4%	12.5%	12.0%
EBITDA	51,943	71,463	78,201	91,444	113,097	Sales growth	20.1%	29.9%	4.9%	21.3%	23.2%
Interest income	7,012	4,738	8,586	10,760	13,929	Operating profit growth	19.9%	38.9%	8.3%	19.4%	23.7%
Interest expense	0	0	0	0	0	Net profit growth	21.8%	30.1%	6.5%	10.7%	24.7%
Investment income (Exp.)	7,012	4,738	8,586	10,760	13,929	EPS (reported) growth	19.2%	29.8%	6.3%	10.6%	24.7%
Non-operating income (Exp.)	7,028	4,741	9,912	10,839	13,929	Interest coverage (x)	-	-	-	-	-
Earnings before tax	52,991	68,594	79,064	93,394	116,031	Net debt to total capital	-60.8%	-63.1%	-73.3%	-66.0%	-70.2%
Tax	-8,081	-10,183	-16,850	-24,536	-30,168	Net debt to equity	-53.1%	-57.3%	-65.9%	-61.0%	-63.6%
Net income (reported)	44,910	58,411	62,214	68,858	85,863	Asset turnover	1.07	1.08	0.91	0.93	0.97
Net income (adjusted)	44,910	58,411	62,214	68,858	85,863	Working capital turns (x)	8.61	11.21	11.47	6.08	5.56
EPS (reported)	78.59	102.04	108.52	119.97	149.60	ROE	32.8%	33.5%	28.8%	26.3%	27.1%
EPS (adjusted)	78.59	102.04	108.52	119.97	149.60	ROIC	52.1%	54.0%	52.0%	49.2%	50.6%
BVPS	273.65	335.09	419.59	494.42	609.31	ROIC (net of cash)	52.1%	54.0%	52.0%	49.2%	50.6%
DPS	33.40	22.97	25.31	59.41	30.00						
Shares outstanding	572	573	574	574	574						

Balance sheet						Cash flow statement					
Rs in millions, year end Mar	FY08	FY09	FY10	FY11E	FY12E	Rs in millions, year end Mar	FY08	FY09	FY10	FY11E	FY12E
Cash and cash equivalents	83,082	109,910	158,587	172,995	222,434	Net income	44,910	58,411	62,214	68,858	85,863
Accounts receivable	32,976	36,721	34,932	44,383	55,478	Depr. & amortization	5,980	7,610	9,050	8,890	10,994
Inventories	80	0	0	0	0	Change in working capital	-5,014	-1,690	2,286	-25,802	-16,591
Others	9,205	11,615	15,760	29,454	36,817	Other	0	0	0	0	0
Current assets	125,343	158,246	209,279	246,832	314,729	Cash flow from operations	45,875	64,331	73,550	51,946	80,266
LT investments	-	-	-	-	-	Capex	-15,073	-13,372	-6,794	-9,782	-10,680
Net fixed assets	40,900	46,662	44,406	45,298	44,984	Disposal/(purchase)	0	0	0	0	0
Others	-	-	-	-	-	Cash flow from investing	-18,471	-16,887	-12,202	-10,783	-10,680
Total Assets	179,770	221,951	276,135	315,581	383,165	Free cash flow	30,803	50,959	66,757	42,164	69,586
Liabilities						Equity raised/(repaid)	14,161	-9,815	1,080	8,309	-2,927
ST Loans	0	0	0	0	0	Debt raised/(repaid)	0	0	0	0	0
Payables	520	233	95	100	124	Other	397	2,349	758	-966	0
Others	22,851	27,237	31,879	29,222	31,089	Dividends paid	-19,609	-13,149	-14,510	-34,098	-17,219
Total current liabilities	22,851	27,237	31,879	29,222	31,089	Cash flow from financing	-5,051	-20,615	-12,672	-26,755	-20,146
Long-term debt	0	0	0	0	0	Net change in cash	22,354	26,829	48,677	14,408	49,440
Other liabilities	440	2,790	3,547	2,581	2,581	Beginning cash	60,728	83,082	109,910	158,587	172,995
Total Liabilities	23,292	30,026	35,426	31,803	33,670	Ending cash	83,082	109,910	158,587	172,995	222,434
Shareholders' equity	156,478	191,924	240,709	283,778	349,495						

Source: Company reports and J.P. Morgan estimates.

**Other Companies Recommended in This Report (all prices in this report as of market close on 03 March 2011, unless otherwise indicated)**

Cognizant (CTSH/\$74.57 [02-March-2011]/Overweight), Tata Consultancy Services (TCS.BO/Rs1,150.20/Overweight), Wipro Ltd. (WIPR.BO/Rs444.30/Overweight)

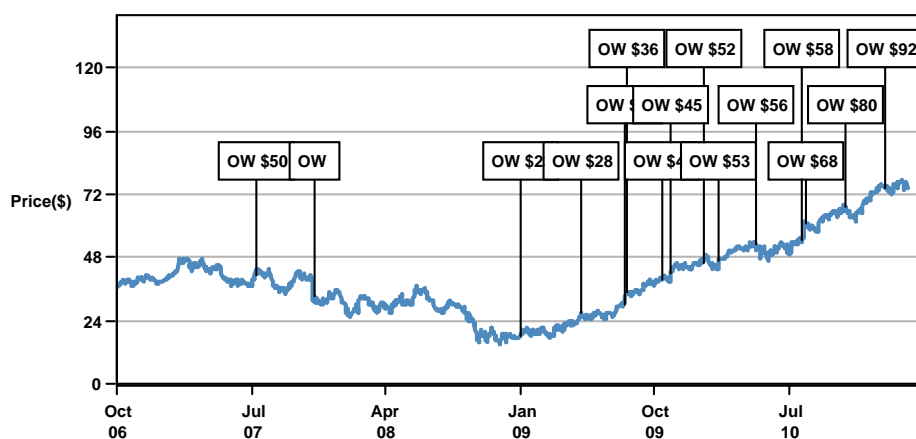
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- **Market Maker:** JPMS makes a market in the stock of Cognizant.
- **Analyst Position:** The following analysts (and/or their associates or household members) own a long position in the shares of Infosys Technologies: Bijay Kumar.
- **Client of the Firm:** Cognizant is or was in the past 12 months a client of JPM; during the past 12 months, JPM provided to the company non-investment banking securities-related service and non-securities-related services. Infosys Technologies is or was in the past 12 months a client of JPM; during the past 12 months, JPM provided to the company non-investment banking securities-related service and non-securities-related services. Tata Consultancy Services is or was in the past 12 months a client of JPM; during the past 12 months, JPM provided to the company non-investment banking securities-related service and non-securities-related services. Wipro Ltd. is or was in the past 12 months a client of JPM; during the past 12 months, JPM provided to the company non-investment banking securities-related service.
- **Investment Banking (next 3 months):** J.P. Morgan expects to receive, or intends to seek, compensation for investment banking services in the next three months from Tata Consultancy Services.
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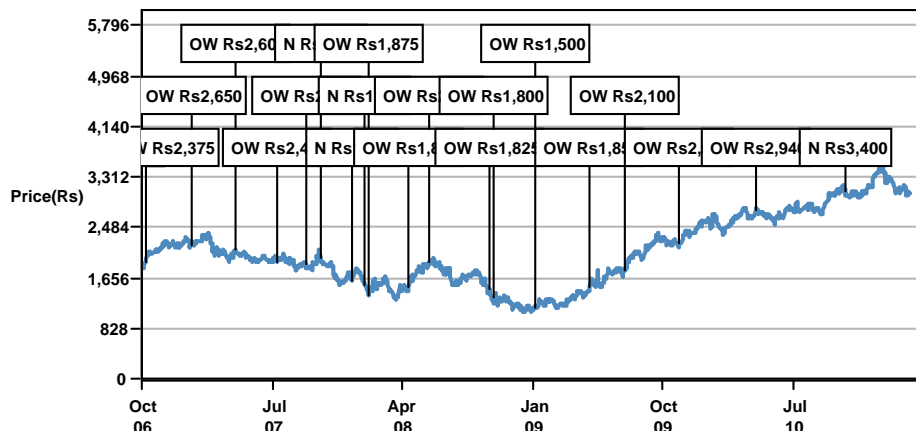
**Cognizant (CTSH) Price Chart**



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.  
 J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

Date	Rating	Share Price (\$)	Price Target (\$)
12-Jul-07	OW	41.08	50.00
07-Nov-07	OW	33.09	--
31-Dec-08	OW	18.06	23.00
06-May-09	OW	26.92	28.00
31-Jul-09	OW	30.20	32.00
05-Aug-09	OW	34.59	36.00
16-Oct-09	OW	39.40	41.00
04-Nov-09	OW	41.87	45.00
08-Jan-10	OW	45.54	52.00
10-Feb-10	OW	46.49	53.00
26-Apr-10	OW	53.20	56.00
30-Jul-10	OW	54.56	58.00
04-Aug-10	OW	60.62	68.00
25-Oct-10	OW	67.26	80.00
13-Jan-11	OW	74.59	92.00

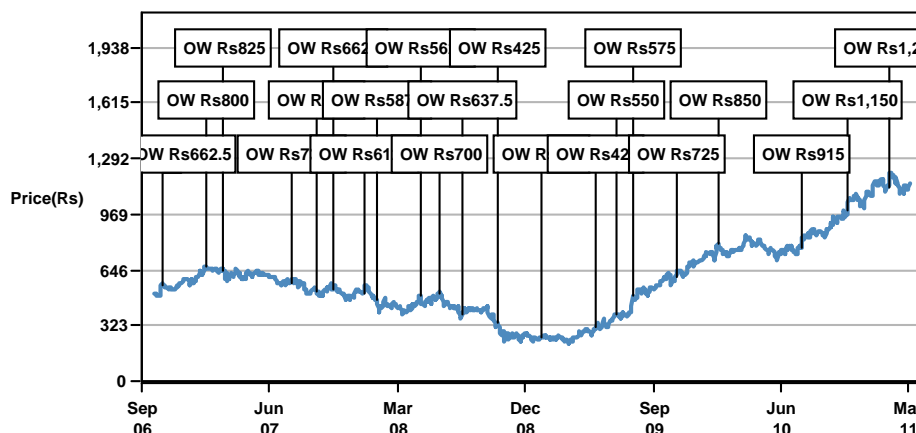
Infosys Technologies (INFY.BO) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
 This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.  
 J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

Date	Rating	Share Price (Rs)	Price Target (Rs)
11-Oct-06	OW	1906.00	2375.00
12-Jan-07	OW	2183.00	2650.00
16-Apr-07	OW	2128.30	2600.00
12-Jul-07	OW	1929.70	2400.00
10-Sep-07	OW	1871.50	2275.00
12-Oct-07	N	1976.00	2150.00
18-Dec-07	N	1620.50	1900.00
14-Jan-08	N	1530.20	1875.00
23-Jan-08	OW	1377.55	1875.00
15-Apr-08	OW	1510.80	1850.00
29-May-08	OW	1912.65	2350.00
02-Oct-08	OW	1453.90	1825.00
11-Oct-08	OW	1319.65	1800.00
06-Jan-09	OW	1174.45	1500.00
01-May-09	OW	1507.30	1850.00
12-Jul-09	OW	1767.95	2100.00
04-Nov-09	OW	2237.15	2550.00
14-Apr-10	OW	2781.90	2940.00
18-Oct-10	N	3076.30	3400.00

Tata Consultancy Services (TCS.BO) Price Chart

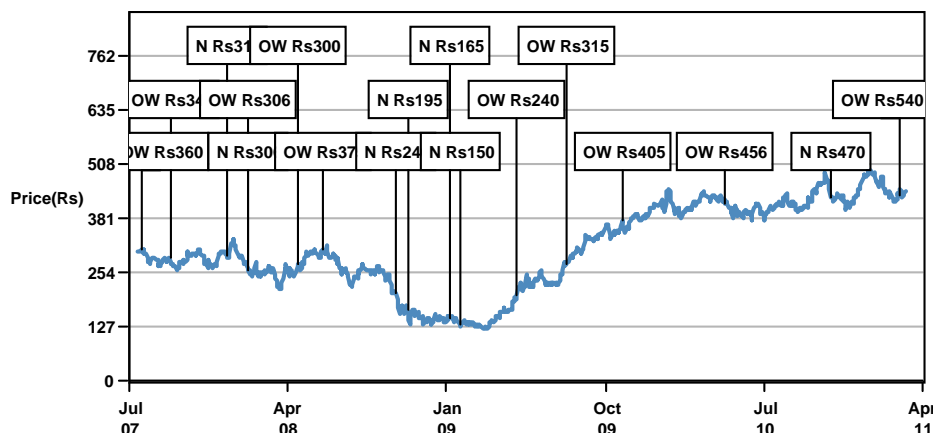


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 J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

Date	Rating	Share Price (Rs)	Price Target (Rs)
16-Oct-06	OW	552.38	662.50
15-Jan-07	OW	662.65	800.00
21-Feb-07	OW	642.98	825.00
16-Jul-07	OW	563.95	737.50
10-Sep-07	OW	523.48	725.00
15-Oct-07	OW	536.82	662.50
20-Dec-07	OW	510.68	612.50
16-Jan-08	OW	472.25	587.50
21-Apr-08	OW	496.28	562.50
29-May-08	OW	504.85	700.00
17-Jul-08	OW	389.60	637.50
02-Oct-08	OW	335.50	425.00
06-Jan-09	OW	257.50	350.00
01-May-09	OW	311.60	425.00
11-Jun-09	OW	390.88	550.00
19-Jul-09	OW	500.10	575.00
20-Oct-09	OW	608.80	725.00
17-Jan-10	OW	802.20	850.00
16-Jul-10	OW	774.65	915.00
22-Oct-10	OW	986.20	1150.00
18-Jan-11	OW	1120.15	1280.00



Wipro Ltd. (WIPR.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
22-Jul-07	OW	305.40	360.00
10-Sep-07	OW	286.95	345.00
17-Dec-07	N	292.89	315.00
21-Jan-08	N	263.70	306.00
23-Jan-08	OW	258.84	306.00
18-Apr-08	OW	275.55	300.00
29-May-08	OW	306.99	375.00
02-Oct-08	N	205.02	240.00
23-Oct-08	N	167.64	195.00
06-Jan-09	N	145.62	165.00
22-Jan-09	N	130.80	150.00
01-May-09	OW	198.51	240.00
24-Jul-09	OW	273.90	315.00
28-Oct-09	OW	375.42	405.00
24-Apr-10	OW	415.14	456.00
25-Oct-10	N	430.35	470.00
21-Feb-11	OW	432.70	540.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.  
 J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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IB clients*	71%	63%	59%

\*Percentage of investment banking clients in each rating category.

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