

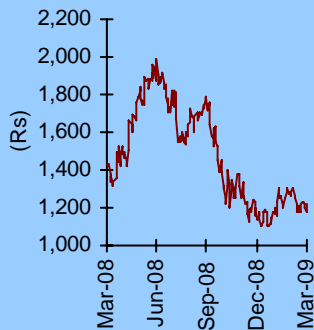
Technology

Shareholding pattern

	Jun '08	Sep '08	Dec '08
Promoters	16.5	16.5	16.5
Institutional investors	41.5	41.0	41.6
MFs and UTI	3.9	3.9	4.0
Insurance Cos.	4.0	4.5	4.7
FII	33.6	32.5	33.0
Others	42.0	42.5	41.9

Source: www.nseindia.com

Price chart



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INDIA

Infosys Technologies

HOLD

Maintained

Rs1,220

Fragile balance

Reason for report: Management meet

Key takeaways from our management meet with Infosys' Telecom and Enterprise Solutions (ES) heads are: i) short-term demand pain to remain due to long decision cycle, though enquiries/client interactions have increased versus bleak visibility in Q3FY09, ii) different pricing models evolving to allay pricing pressure, iii) onsite bench to be reduced to seven days from higher/flexible levels earlier and iv) management confidence on margins high. Overall, we believe demand visibility is still weak in the short-to-medium term due to lack of decision making at the client's end. We are cautious on the sectoral outlook, at least in the short-to-medium term, with no BUYs recommended within large-caps.

- **Telecom – Demand uncertainty worsens.** Key notables from our meet with the Telecom head are: i) pricing pressure increasing even for non-discretionary annuity business and lack of incremental projects in discretionary business, ii) decision delays continuing – Clients are more cautious, but remain positive on outsourcing and offshoring with increasing discussions. Long decision cycle is the biggest challenge and iii) evolution of different pricing models such as increasing fixed-price contracts and platform-based offerings to ease pricing pressure. We expect continued underperformance in Telecom with higher client concentration.
- **ES – Improving management confidence.** Key notables from our meet with the ES head are: i) demand visibility improving vis-à-vis our discussion in Q3FY09 – Demand pipeline is improving from non-traditional markets of India, the Middle East and Australia and from verticals of Oil&Gas, Utilities and Pharma, ii) instances of project cancellations continuing but still restricted to some small projects, iii) within focussed markets, demand is still coming from the implementation of on-shelf ERP licences and outsourcing & maintenance support, iv) 160 active clients in ERP with no concerns on receivables, v) onsite bench to be reduced to seven days from higher/flexible levels earlier, vi) overall, the management expects ES to register positive growth in FY10, despite higher discretionary nature of the ERP business; we believe any major sequential growth is unlikely and vii) Infosys is actively pursuing sizeable acquisitions in ERP from Europe, especially Germany and France.
- **Reiterate Infosys as sectoral outperformer.** We believe Infosys will guide for flat-to-marginal decline in FY10 dollar revenues. With higher earnings visibility due to more headroom for increasing the fixed price, higher variable pay flexibility, favourable hedge, superior corporate governance and resulting consistent operating outperformance, we maintain Infosys as our sectoral outperformer, with Rs1,300/share target price. Maintain HOLD.

Market Cap	Rs698.7bn/US\$13.5bn
Reuters/Bloomberg	INFY.BO/INFO IN
Shares Outstanding (mn)	572.7
52-week Range (Rs)	2,047/1,040
Free Float (%)	83.5
FII (%)	33.0
Daily Volume (US\$'000)	57,470
Absolute Return 3m (%)	5.3
Absolute Return 12m (%)	(14.9)
Sensex Return 3m (%)	(9.1)
Sensex Return 12m (%)	(47.9)

Year to March	FY08	FY09E	FY10E	FY11E
Revenue (Rs mn)	166,920	217,268	219,739	243,811
Net Income (Rs mn)	45,684	58,393	59,275	62,665
EPS (Rs)	79.9	102.0	103.4	109.1
% Chg YoY	19.5	27.6	1.3	5.6
P/E (x)	15.3	12.0	11.8	11.2
CEPS (Rs)	90.0	114.9	118.4	125.1
EV/E (x)	11.9	8.3	8.0	6.8
Dividend Yield	2.7	2.7	2.3	2.3
RoCE (%)	36.8	37.7	30.7	26.6
RoE (%)	36.5	37.4	30.5	26.5

Please refer to important disclosures at the end of this report

Financial Summary (Consolidated Indian GAAP)

Table 1: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Revenues (Sales)	166,920	217,268	219,739	243,811
of which Exports	164,232	213,744	215,120	242,448
of which Domestic	2,688	3,523	4,618	1,363
Operating Expenses	114,226	145,305	151,577	170,716
EBITDA	52,694	71,963	68,162	73,095
% margins	31.6	33.1	31.0	30.0
Depreciation & Amortisation	5,980	7,311	8,516	9,597
Gross Interest	0	0	0	0
Other Income	7,040	3,709	11,557	15,298
Recurring PBT	53,754	68,361	71,204	78,796
Add: Extraordinaries	906	1,090	0	0
Less: Taxes	8070	9968	11929	16132
- Current tax	10,060	11,621	13,600	16,547
- Deferred tax / MAT				
Credit	(1,990)	(1,653)	(1,671)	(416)
Net Income (Reported)	46,590	59,483	59,275	62,665
Recurring Net Income	45,684	58,393	59,275	62,665

Source: Company data, I-Sec Research

Table 2: Balance Sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Assets				
Total Current Assets	130,180	171,936	217,070	285,256
of which cash and deposits with FI	82,350	106,846	162,760	211,515
Total Current Liabilities & Provisions	41,910	53,241	58,155	88,642
Net Current Assets	88,270	118,695	158,915	196,614
Investments	720	1,980	1,250	1,500
of which Other Marketable	720	1,980	1,250	1,500
Net Fixed Assets	34,530	42,219	43,704	49,107
Intangibles	0	0	0	0
Goodwill	6,890	7,020	7,020	7,020
Capital Work-in-Progress	13,240	10,000	10,000	10,000
Total Assets	136,760	172,894	213,869	257,221
of which cash and equivalents	83,070	108,826	164,010	213,015
Liabilities				
Borrowings	0	0	0	0
Deferred Tax Liability	(1,190)	(1,134)	(1,025)	(1,441)
Equity Share Capital	2,860	2,865	2,870	2,871
Face Value per share (Rs)	5	5	5	5
Reserves & Surplus*	135,090	171,164	212,024	255,790
Net Worth	137,950	174,028	214,894	258,662
Total Liabilities	136,760	172,894	213,869	257,221

Source: Company data, I-Sec Research

*excluding revaluation reserves

Table 5: Quarterly trends

(Rs mn, year ending March 31)

	Mar-08	Jun-08	Sep-08	Dec-08
Net sales	45,420	48,540	54,180	57,860
% growth (YoY)	20.4	28.7	32.0	35.5
Recurring EBITDA	14,780	14,790	17,940	20,310
Margin (%)	32.5	30.5	33.1	35.1
Other income	1,390	1,170	660	220
Extraordinaries Inc / (Loss)	200	310	0	780
Recurring Net Income	12,290	12,710	14,320	15,630

Source: Company data, I-Sec Research

Table 3: Cash Flow Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Cash flow before W Cap changes	52,830	73,672	69,942	73,095
Working Capital Inflow/ (Outflow)	(11,590)	(10,205)	3,453	(5,487)
Capex	(14,940)	(11,760)	(10,000)	(15,000)
Free Cash flow	26,300	51,707	63,395	52,608
Cash Flow from other Invst Act (Ex Capex)	3,740	2,449	12,287	15,048
Proceeds from Issue of Share Capital	580	565	662	166
Inc/(Dec) in Borrowings	0	0	0	0
Dividend paid	(8,350)	(29,135)	(20,430)	(19,067)
Others	0	(1,090)	0	0
Increase/(Decrease) in Cash	22,270	24,496	55,914	48,754

Source: Company data, I-Sec Research

Table 4: Key Ratios

(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
Per Share Data (in Rs)				
EPS(Basic Recurring - Weighted Avg)	79.9	102.0	103.4	109.1
Fully Diluted Recurring EPS	79.4	101.5	103.1	108.9
Recurring Cash EPS	90.0	114.9	118.4	125.1
Dividend per share (DPS)	33.3	32.5	28.4	28.4
Book Value per share (BV)	241.2	303.8	374.4	450.4
Growth Ratios (%)				
Operating Income (Sales)	20.1	30.2	1.1	11.0
EBITDA	20.0	36.6	(5.3)	7.2
Recurring Net Income	22.6	27.8	1.5	5.7
Diluted Recurring EPS	22.6	27.8	1.5	5.7
Diluted Recurring CEPS	22.1	27.8	3.3	5.8
Valuation Ratios (x)				
P/E	15.3	12.0	11.8	11.2
P/CEPS	13.6	10.6	10.3	9.7
P/BV	5.1	4.0	3.3	2.7
EV / EBITDA	11.9	8.3	8.0	6.8
EV / Sales	3.8	2.8	2.5	2.0
EV / FCF	23.9	11.6	8.6	9.5
Operating Ratio				
Software Development Expenses/Sales (%)	55.0	54.3	57.0	58.0
SG&A/Sales (%)	13.5	12.6	12.0	12.0
Other Income / PBT (%)	13.1	5.4	16.2	19.4
Effective Tax Rate (%)	15.0	14.6	16.8	20.5
NWC / Total Assets (%)	49.4	52.5	58.4	56.8
Fixed Asset Turnover (x) on average	5.3	5.7	5.1	5.3
Receivables (days) on average	63	62	64	63
Payables (days) on average	44	45	41	43
D/E Ratio (x)	0.0	0.0	0.0	0.0
Return/Profitability Ratio (%)				
Recurring Net Income Margins	27.4	26.9	27.0	25.7
RoIC (Based on Avg)	73.0	92.0	85.5	104.6
RoCE (Based on Avg)	36.8	37.7	30.7	26.6
RoNW (Based on Avg)	36.5	37.4	30.5	26.5
Dividend Payout Ratio	49.7	38.0	32.2	30.4
Dividend Yield	2.7	2.7	2.3	2.3
EBITDA Margins	31.6	33.1	31.0	30.0

Source: Company data, I-Sec Research

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