

All eyes on Infosys guidance

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■ Not unreasonable to expect revenue guidance of 19-21% from Infosys

We expect strong revenue guidance from Infosys Technologies (Infosys) for FY12, based on our view that demand recovery is likely to be more broad-based in 2011. The strong revenue numbers reported by Accenture in its recent earnings announcement also point to a strong recovery in discretionary spending in 2011, in our view. We expect dollar revenue guidance of 19-21% YoY from Infosys on 15 April 2011.

■ Margin focus, wage outlook to be key points to watch out for

With revenue recovery stabilising, and most Indian vendors reporting significant operating margin declines in FY11, we expect investor focus to shift to the margin outlook in FY12. Wage hikes are the primary drag on margins and we expect announcements from Infosys and Tata Consultancy Services (TCS) to set the base for the rest of the industry.

■ Q4 FY11 likely to be in line, no major surprise likely

We expect large cap vendors to report 5-6% revenue growth, with most vendors reporting margin increases during the quarter. We expect net profit to grow faster than revenue for most large vendors. We expect mid-sized vendors to continue to report relatively weaker numbers.

■ UBS view: Infosys remains top pick, with strong guidance expectations

We believe that strong revenue guidance from Infosys will overshadow a likely conservative margin outlook and act as a strong catalyst for further share price upside potential. We maintain our Buy rating on Infosys, which is our top pick in the Indian IT services sector. We maintain our Neutral rating on TCS and our Sell ratings on Wipro and HCL Technologies. We remain more cautious on mid-cap stocks.

Table 1: Q4 FY11 estimates

Q4 FY11E	Revenue (Rs m)	% QoQ	EBITDA margin	Inc/(Dec) - bps	PAT (Rs m)	% QoQ
Infosys	74,970	5.5%	33.6%	31	19,040	7.0%
TCS	102,495	6.1%	29.7%	(49)	24,155	2.5%
Wipro	82,311	5.3%	21.5%	59	14,203	8.4%
HCL Tech	40,506	4.9%	17.1%	77	4,353	9.6%
Patni	8,801	7.3%	16.6%	66	1,366	-22.6%
Mphasis	12,612	2.2%	19.4%	(146)	2,010	-11.3%
Tech Mahindra	12,569	3.8%	18.8%	(184)	1,825	-29.0%

Note: Year-end June 2011 for HCLT; December 2011 for Patni; October 2011 for Mphasis.

Source: Company data, UBS estimates

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Table 2: Valuation comparison

	Price (Rs)	Mkt. Cap (US\$ bn)	Rating	Potential upside (%)	PE (x)	EV/EBITDA (x)	EPS CAGR FY11-13E (%)
TCS	1,180	51.9	Neutral	6.0%	22.9	16.9	17.0%
Infosys	3,218	41.4	Buy	15.0%	21.5	14.8	22.9%
Wipro	476	26.2	Sell	-7.5%	19.7	14.0	12.6%
HCL Tech	467	7.0	Sell	-9.0%	15.2	8.9	21.8%
Mphasis	421	2.0	Neutral	18.8%	10.9	7.2	-13.0%
Patni	474	1.4	Buy	11.7%	11.8	6.8	-0.1%
TechMahindra	691	1.9	Neutral	5.0%	11.2	6.4	5.9%
Mahindra Satyam	66	1.7	Sell	-1.8%	18.5	10.2	24.0%

Above data as at 1 April 2011. Note: Year-end June 2011 for HCLT; December 2011 for Patni; October 2011 for Mphasis.

Source: Company data, UBS estimates

Table 3: Quarterly US\$ versus Rs revenue growth rates

		Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11E
Infosys	US\$ growth (%)	(3.7)	(4.3)	0.1	2.9	6.8	5.2	4.8	10.2	5.9	4.6
	Rs growth (%)	6.8	(2.6)	(2.9)	2.1	2.8	3.5	4.3	12.1	2.3	5.5
TCS	US\$ growth (%)	(5.8)	(3.4)	3.3	3.8	6.3	3.1	6.4	11.7	7.0	5.8
	Rs growth (%)	4.7	(1.4)	0.5	3.2	2.9	1.1	6.2	13.0	4.1	6.1
Wipro	US\$ growth (%)	(0.9)	(4.9)	(1.3)	3.2	5.8	3.5	3.2	5.7	5.6	4.2
	Rs growth (%)	6.2	(0.8)	(3.6)	3.6	3.3	1.8	4.6	4.5	3.5	5.3
HCL Tech	US\$ growth (%)	0.5	11.3	7.6	3.8	3.4	5.1	7.6	9.0	7.5	4.9
	Rs growth (%)	4.2	15.9	1.6	4.2	0.0	1.4	11.4	5.4	6.9	4.9
Mphasis	US\$ growth (%)	9.0	4.0	11.0	0.5	9.8	5.4	1.8	7.5	(8.5)	2.8
	Rs growth (%)	9.3	7.2	5.4	2.4	5.2	2.4	4.8	5.2	(8.3)	2.2
Patni	US\$ growth (%)	0.6	(7.2)	(2.8)	4.0	(1.8)	(1.9)	0.4	2.4	2.9	7.3
	Rs growth (%)	(3.9)	(11.4)	3.5	3.3	1.8	1.3	(2.8)	6.7	2.3	6.5
TechM	US\$ growth (%)	(14.0)	(8.8)	7.7	3.9	7.3	1.9	(2.9)	30.7	(18.1)	3.3
	Rs growth (%)	(2.8)	(7.1)	5.9	2.6	4.0	(0.3)	(4.2)	35.3	(21.0)	3.8

Note: Year-end June 2011 for HCLT; December 2011 for Patni; October 2011 for Mphasis.

Source: Company data, UBS estimates

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Neutral	Hold/Neutral	40%	37%
Sell	Sell	8%	20%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	30%
Sell	Sell	less than 1%	17%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
HCL Technologies	HCLT.BO	Sell	N/A	Rs467.05	01 Apr 2011
Infosys Technologies Ltd. ^{16, 18a}	INFY.BO	Buy	Buy	Rs3,218.20	01 Apr 2011
Mahindra Satyam ¹⁶	SATY.BO	Sell	N/A	Rs66.20	01 Apr 2011
MphasiS Limited	MBFL.BO	Neutral	N/A	Rs420.80	01 Apr 2011
Patni Computer Systems ¹⁶	PTNI.BO	Buy	N/A	Rs474.45	01 Apr 2011
Tata Consultancy Services Ltd.	TCS.BO	Neutral	N/A	Rs1,179.65	01 Apr 2011
Tech Mahindra ⁵	TEML.BO	Neutral	N/A	Rs690.75	01 Apr 2011
Wipro Ltd. ^{16, 18b}	WIPR.BO	Sell	N/A	Rs475.85	01 Apr 2011

Source: UBS. All prices as of local market close.

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