

January 12, 2012

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Rating	BUY
Price	Rs2,588
Target Price	Rs3,080
Implied Upside	19.0%
Sensex	16,038
Nifty	4,831

(Prices as on January 12, 2012)
Trading data

Market Cap. (Rs bn)	1,480.5
Shares o/s (m)	572.0
3M Avg. Daily value (Rs m)	4250.9

Major shareholders

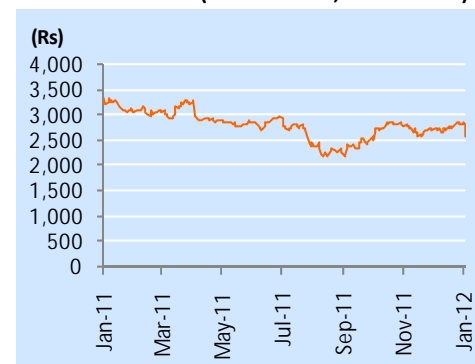
Promoters	16.04%
Foreign	36.66%
Domestic Inst.	10.71%
Public & Other	36.59%

Stock Performance

(%)	1M	6M	12M
Absolute	(5.5)	(7.3)	(23.4)
Relative	(6.6)	5.6	(5.5)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	171.0	166.7	2.6
2014	188.5	190.3	-0.9

Price Performance (RIC: INFY.BO, BB: INFO IN)


Source: Bloomberg

Infosys' Q3FY12 performance was in line with our/consensus expectations. But, a disappointing Q4FY12 guidance was consistent with the commentaries from global tech majors. However, we believe that the recovery in the US would translate in tech-spending with a lag. We expect Q4FY12 to be a trough performance. We don't expect consensus to cut FY13 growth expectation, which is already in low-to-mid-teens. We, thus, tweak our model and revise our target price downwards to **Rs3,080** (Old: Rs3,160), but retain **'BUY'**.

- **Anaemic Q4FY12 – a concern or a trough performance?:** Infosys' revenue guidance of flat Q4FY12 in USD terms served as a negative surprise. However, we believe that improving economic outlook from the US would translate into better-than-expected tech spending in CY12. A delay in project kick-off resulted in an anaemic performance. We expect growth to return as the cloud of uncertainty around European crisis clears. The growth in Europe (@cc 16.8% QoQ) from new clients was an encouraging sign. The management is not anticipating those delayed projects to kick-off in FY12. We expect volumes in FY13 to be at 2-4% QoQ, as deferred projects start to kick-off.
- **Client addition and five large deals – a silver lining:** Infosys added 49 new clients in the quarter, with six F500/G1000 clients. Two large deals from Europe are encouraging and indicate that investment in Europe is working well.
- **Fresher hiring indicates 10-13% YoY USD revenue growth guidance in FY13?:** Infosys has given 20k fresher offer for FY13 and 20% more fresher hiring could be done just-in-time, likely to have 70-30 fresher-to-lateral mix. We see a hiring guidance of ~33-38k for FY13, yielding in 10-13% YoY USD revenue growth guidance. Lower utilization and no supply-side constraints could help them deal with some positive surprise.
- **FY12 and FY13 estimates downward:** We tweaked our model with lower volume growth. We revise our USD revenue by 0.5% and 2.2% downward with lower margin by 29bps and 13bps for FY12 and FY13, respectively.
- **Valuation & Recommendation – Reiterate 'BUY', with revised TP of Rs3,080:** We expect FY13 momentum to improve as uncertainty clears. We retain **'BUY'** rating, with TP of **Rs3,080**, 18x FY13e earnings estimates.

Key financials (Y/e March)	2011	2012E	2013E	2014E
Revenues (Rs m)	275,010	344,336	404,310	455,517
Growth (%)	20.9	25.2	17.4	12.7
EBITDA (Rs m)	89,640	110,726	128,223	142,062
PAT (Rs m)	68,230	83,852	97,831	107,831
EPS (Rs)	119.3	146.6	171.0	188.5
Growth (%)	8.9	22.9	16.7	10.2
Net DPS (Rs)	26.5	31.5	37.9	44.9

Profitability & Valuation	2011	2012E	2013E	2014E
EBITDA margin (%)	32.6	32.2	31.7	31.2
RoE (%)	27.8	29.1	27.6	24.8
RoCE (%)	27.8	29.1	27.6	24.8
EV / sales (x)	4.8	3.7	3.0	2.5
EV / EBITDA (x)	14.8	11.6	9.6	8.2
PE (x)	21.7	17.7	15.1	13.7
P / BV (x)	5.7	4.7	3.8	3.1
Net dividend yield (%)	1.0	1.2	1.5	1.7

Source: Company Data; PL Research

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Exhibit 1: Conference call highlights

Positives	Verdict
Pricing uptick of 0.4% QoQ	Change in business mix, with marginal uptick in pricing for new contracts, accompanied by no pricing pressure from existing clients has helped them deliver superior pricing. Over the last 9M, the pricing has gone up 6.1% (@cc).
49 new clients, additional 6 are F500/G500	Infosys continues to pin their focus on F500/G500 clients and added 6 such clients in Q2FY12. We believe that focus on large clients would help the company to extract stronger growth with lesser investment in S&M. Infosys bagged 2 business transformational and 2 large deals, along with 10 platform deals in Q2FY12.
Utilization, including and excluding trainees, is 69.9% and 77.4%, respectively.	We believe that lower utilization leaves stronger room for a positive surprise as the company could utilize the bench strength for addressing surprise growth opportunity.
Attrition on LTM basis came down to 15.4% in Q1FY12	Attrition for the company is spiralling down. In Q4FY11, attrition was 17% and in Q1FY12, it came down to 15.8% and in Q2FY12, it was at 15.6%. We expect attrition to stabilize in 13-15% range for FY12.
5 large deals signed in Q3FY12	Infosys has signed 5 large deals with one business transformational deal. Two deals are \$500m+ with one each in Business Operation optimization and Infrastructure Management. Two of the large deals are from new logos in Europe. One deal win was re-bidding.
Strength in Europe (13.7% QoQ, @cc 16.8% QoQ)	Infosys' investments in France and Germany have helped them capture new logos and first-time outsourcers in Europe. One of the two \$500m+ deal is signed in Europe. Two of the five large deals signed are in Europe, with one each in Services and Manufacturing. However, we expect NA to remain a growth engine for the company in CY12.
Negatives	Verdict
Muted USD revenue growth guidance for Q4FY12	The management's muted guidance for Q4FY12 is factoring contribution from Portland in Q4FY12. Also, the management is factoring in pricing to remain constant in Q4FY12.
Fresher hiring of 23k for FY13	The management highlighted 23k fresher hiring for FY13, lower than our expectation. However, the company was confident to hire fresher on just-in-time basis. We believe that lower utilization and little-to-no constraint on the supply side would ease the concern for FY13.
IT budget may be marginally down	Initial discussion with the clients indicates that IT budget is likely to be flat-to-negative in CY12. Moreover, the management was doubtful about the expense of those budgets. When the management started the discussion with clients in October-10, the indication was that IT budget is going to be flat. However, the increased offshoring could drive growth for Infosys.
Top 10 clients growth remain challenging	Top clients de-grew by 7.8% QoQ and top 2-5 clients de-grew by -0.2% QoQ. Top clients mining for the company remained weakest among peers.

Source: PL Research

Exhibit 2: Revising our revenue and margin forecast down for FY12 and FY13

	Old		New		Revision	
	FY12	FY13	FY12	FY13	FY10	FY11
Revenue (Rs m)	343,415	413,345	344,336	404,310	0.3%	-2.2%
<i>EBITDA Margin</i>	32.4%	31.8%	32.2%	31.7%	(29.25)	(12.65)
EPS	147.48	175.73	146.8	171.2	-0.5%	-2.6%
Target Multiple	18		18			0.0%
Target Price	3160		3,080			-2.5%

Source: Company Data, PL Research

Exhibit 1: Guidance – Lower than our/consensus estimates

<i>YoY growth (FY11)</i>		<i>20.9%</i>		
FY Rev (INR)	PL E (FY12)	343,415		
	Street E (FY12)	341,644		
	Guidance (FY12)	342,835	342,730	342,940
	<i>YoY growth</i>	<i>24.7%</i>	<i>24.6%</i>	<i>24.7%</i>
<i>Guidance Revision</i>		<i>1.4%</i>		
FY Rev (USD)	Actual FY11	6,041		
	<i>YoY growth</i>	<i>25.7%</i>		
	PL E (FY12)	7,117		
	Guidance (FY12)	7,031	7,029	7,033
FY Rev (INR)	<i>YoY growth</i>	<i>16.4%</i>	<i>16.4%</i>	<i>16.4%</i>
	<i>Guidance Revision</i>	<i>-1.5%</i>		
	Actual FY11	119.5		
	<i>YoY growth</i>	<i>9.6%</i>		
FY EPS (USD)	PL E (FY12)	147.48		
	Street E (FY12)	148.98		
	Guidance (FY12)	147.1	147.1	147.1
	<i>YoY growth</i>	<i>23.1%</i>	<i>23.1%</i>	<i>23.1%</i>
FY EPS (INR)	<i>Guidance revision %</i>	<i>2.1%</i>		
	Actual FY11	2.62		
	<i>YoY growth</i>	<i>13.9%</i>		
	Guidance (FY12)	3.00	3.00	3.00
Next Q guidance	<i>YoY growth</i>	<i>14.5%</i>	<i>14.5%</i>	<i>14.5%</i>
	<i>Guidance revision %</i>	<i>-1.3%</i>		
	INR revenue guidance next Q	94,015	93,910	94,120
	<i>QoQ growth</i>	<i>1.1%</i>	<i>1.0%</i>	<i>1.2%</i>
Next Q guidance	USD revenue guidance next Q	1,808	1,806	1,810
	<i>QoQ growth</i>	<i>0.1%</i>	<i>0.0%</i>	<i>0.2%</i>
	INR EPS guidance next Q	42.12	42.12	42.12
	<i>QoQ growth</i>	<i>1.5%</i>		

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	275,010	344,336	404,310	455,517
Raw Material Expenses	150,540	190,201	222,678	255,201
Gross Profit	124,470	154,135	181,632	200,316
Employee Cost	—	—	—	—
Other Expenses	34,830	43,408	53,410	58,255
EBITDA	89,640	110,726	128,223	142,062
Depr. & Amortization	8,620	9,335	12,014	13,307
Net Interest	—	—	—	—
Other Income	12,110	15,884	15,995	16,962
Profit before Tax	93,130	117,275	132,204	145,717
Total Tax	24,900	33,423	34,373	37,886
Profit after Tax	68,230	83,852	97,831	107,831
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	68,230	83,852	97,831	107,831
Avg. Shares O/S (m)	572.0	572.0	572.0	572.0
EPS (Rs.)	119.3	146.6	171.0	188.5

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	90,260	126,610	144,218	159,024
C/F from Investing	33,980	(14,806)	(17,385)	(18,676)
C/F from Financing	(36,400)	(33,938)	(21,705)	(25,703)
Inc. / Dec. in Cash	87,840	77,866	105,128	114,645
Opening Cash	—	—	—	—
Closing Cash	—	—	—	—
FCFF	55,930	62,961	84,859	95,166
FCFE	55,930	62,961	84,859	95,166

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	20.9	25.2	17.4	12.7
EBITDA (%)	14.0	23.5	15.8	10.8
PAT (%)	8.9	22.9	16.7	10.2
EPS (%)	8.9	22.9	16.7	10.2
Profitability				
EBITDA Margin (%)	32.6	32.2	31.7	31.2
PAT Margin (%)	24.8	24.4	24.2	23.7
RoCE (%)	27.8	29.1	27.6	24.8
RoE (%)	27.8	29.1	27.6	24.8
Balance Sheet				
Net Debt : Equity	(0.6)	(0.6)	(0.6)	(0.7)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	21.7	17.7	15.1	13.7
P / B (x)	5.7	4.7	3.8	3.1
EV / EBITDA (x)	14.8	11.6	9.6	8.2
EV / Sales (x)	4.8	3.7	3.0	2.5
Earnings Quality				
Eff. Tax Rate	26.7	28.5	26.0	26.0
Other Inc / PBT	13.0	13.5	12.1	11.6
Eff. Depr. Rate (%)	10.1	8.4	9.3	9.0
FCFE / PAT	82.0	75.1	86.7	88.3

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	259,760	317,004	393,130	475,258
Total Debt	—	—	—	—
Other Liabilities	—	—	—	—
Total Liabilities	259,760	317,004	393,130	475,258
Net Fixed Assets	57,600	71,565	78,081	84,428
Goodwill	—	—	—	—
Investments	1,440	1,440	1,440	1,440
Net Current Assets	197,510	240,789	310,399	386,180
<i>Cash & Equivalents</i>	<i>150,950</i>	<i>190,790</i>	<i>252,798</i>	<i>321,284</i>
<i>Other Current Assets</i>	<i>99,730</i>	<i>94,339</i>	<i>109,662</i>	<i>123,551</i>
<i>Current Liabilities</i>	<i>53,170</i>	<i>44,339</i>	<i>52,062</i>	<i>58,656</i>
Other Assets	3,210	3,210	3,210	3,210
Total Assets	259,760	317,004	393,130	475,258

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	72,500	74,850	80,990	92,980
EBITDA	23,240	21,750	25,160	31,350
% of revenue	32.1	29.1	31.1	33.7
Depr. & Amortization	2,220	2,230	2,350	2,360
Net Interest	—	—	—	—
Other Income	4,150	4,430	3,870	4,220
Profit before Tax	25,170	23,950	26,680	33,210
Total Tax	6,990	6,730	7,620	9,490
Profit after Tax	18,180	17,220	19,060	23,720
Adj. PAT	18,180	17,220	19,060	23,720

Key Operating Metrics

Y/e March	2011	2012E	2013E	2014E
Volume (persons month)	998,425	1,165,162	1,316,633	1,514,128
Pricing (US\$ / Hr)	6,051	6,081	6,142	6,203
Currency (USDINR)	45.5	48.6	50.0	48.5
SW Devp. Cost (% of sales)	54.7	55.2	55.1	56.0
SG&A (% of sales)	12.7	12.6	13.2	12.8
Revenue (US\$ m)	6,041	7,085	8,086	9,392
EBITDAM Expansion/(Erosion) (bps)	(197.1)	(43.9)	(44.3)	(52.7)
Tax Rate (%)	26.7	28.5	26.0	26.0

Source: Company Data, PL Research.

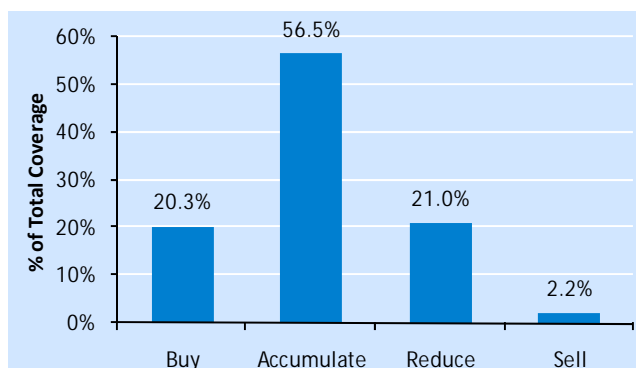


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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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