

Company update

Infosys Technologies

BUY

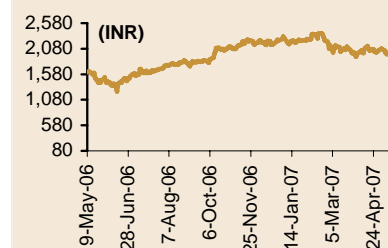
Bloomberg: INFO IN
Reuters: INFY.NS
Mkt cap: INR 1,126.7bn/USD 27.5bn

Current price: INR 1,973*
Target price: INR 2,515**

Rupee appreciation remains the main concern

We revise estimates and target price downwards, maintain BUY ****Revised from INR 2,713 Horizon: March 2008**
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Stock performance


| (%) | Absolute | Relative to | |
|-----------|----------|-------------|--------|
| | | Sensex | Sector |
| 3 months | (16.1) | (14.5) | (7.7) |
| 6 months | (7.7) | (13.0) | (10.8) |
| 12 months | 21.6 | 7.2 | 5.0 |

Expected performance relative to Sensex **OUTPERFORM**
Beta relative to Sensex **0.9**
Key financials

| Y/E 31 Mar | FY07 | FY08E | FY09E |
|------------------------------|-------------|-------------|--------------|
| Net sales (INR m) | 138,930 | 179,365 | 233,146 |
| Net profit (INR m) | 38,560 | 47,903 | 60,266 |
| Adj EPS (INR) | 66.9 | 83.6 | 104.8 |
| PER (x) | 29.5 | 23.6 | 18.8 |
| PCE (x) | 25.9 | 20.5 | 16.4 |
| EV/Core | | | |
| EBITDA (x) | 24.3 | 19.0 | 14.8 |
| Price/Book (x) | 9.8 | 7.8 | 6.6 |
| ROE (%) | 40.9 | 37.3 | 38.1 |
| ROCE (%) | 41.7 | 40.1 | 41.8 |
| Consensus EPS (INR) * | | 85.0 | 107.5 |

* Bloomberg

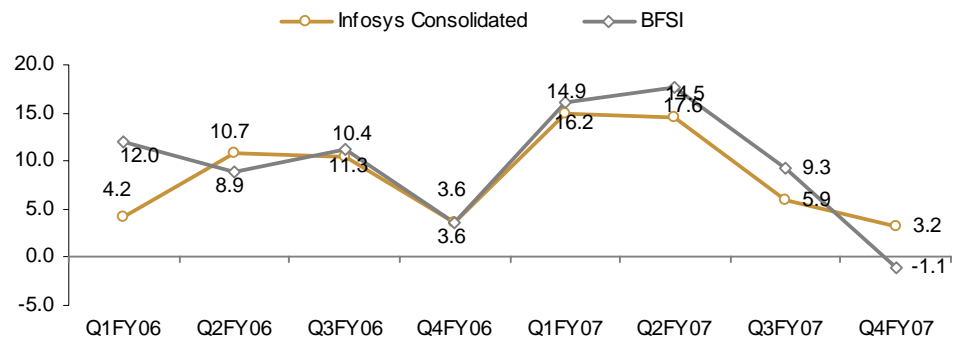
We met Infosys Technologies (INFO) CFO recently and discussed the demand scenario, pricing trends, hiring pattern, attrition and margin assumptions. While the INFO management does not see any slowdown in any verticals including BFSI, we think that there would be definite slowdown in BFSI client ramp up in the US during FY08. Also, according to the management, the flat margin guidance does not hold true in the new rupee scenario. Our analysis on pricing shows that INFO got real onsite pricing hike of 2.9% and offshore pricing hike of 1.56% during FY07 after adjusting for movement of the euro-dollar and change in business mix.

INFO also needs to hire around 39,000 people on gross level to take care of our estimated 31.7% volume growth in IT services (gross addition required is around 27,000, out of which 3,000 will come from increasing utilisation) and 70% volume growth in BPO (gross addition required is around 15,000) during FY08. INFO added 31,000 people on gross level during FY07.

We revise downwards our revenue and EPS estimates to take care of the rupee appreciation. Our new estimates (assuming dollar-rupee rate of 41.5 for FY08 and 40.0 for FY09) are for 29.1% revenue growth in FY08 and 30% revenue growth in FY09. The new EPS estimate for FY08 stands at INR 83.6 and for FY09 at INR 104.8 Based on the new EPS estimates, we revise our target price to INR 2,515 (24x FY08 EPS). We continue to maintain BUY.

No red flags on demand front

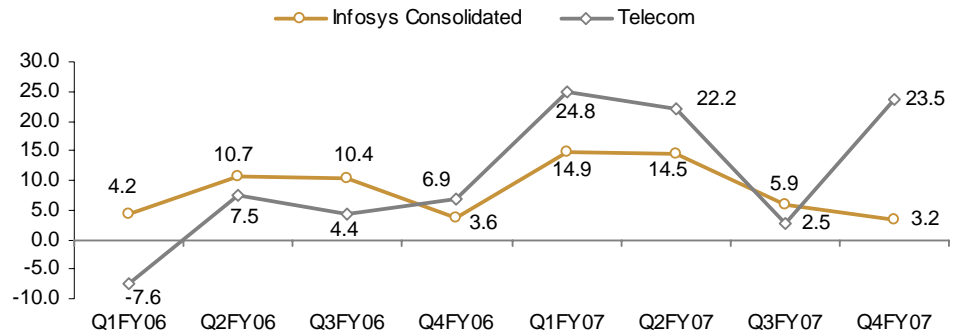
- BFSI slowdown:** no clear call on this: While we find it difficult to say whether INFO BFSI business would underperform the company growth rate in FY08 we could say a few things with certainty
 - There would be definite slowdown in ramp up in a few large BFSI accounts during FY08. The reasons for this relative slowdown are manifold, and include already high penetration of off-shoring, internal issues like restructuring (eg Amex), cut in discretionary IT spend (due to cost pressures), etc

Figure 1: QoQ growth in BFSI vertical revenue for the past eight quarters (%)

Source: Company, Brics Research

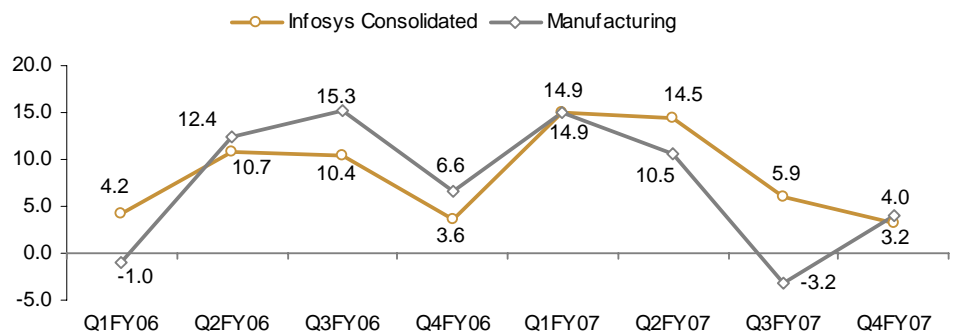
- The management insisted that we should look at portfolio of accounts to form a complete picture. It also insists that the penetration of BFSI business in a number of large accounts is still less than 10% of total IT services spend and there is still ample scope of growth in these accounts
 - We think that INFO has got a few large clients (like a large US retail broking house) in the recent past which may ramp up well during the year. There is also some talk about management focusing on other newer verticals like Telecom, in which margins are at least 2-3% higher than in BFSI
 - We think that BFSI vertical in the US is reaching a point where getting new large accounts is going to be increasingly difficult, and companies have to look at other geographies like Europe, Japan and Asia Pacific or smaller clients in the US to sustain the past growth rates; and,
 - Other companies, whom we met recently – WPRO, SCS, TCS and CTSH – do not see any slowdown in BFSI vertical as of now. In fact, CTSH, which gets almost 45% of its revenues from BSFI is targeting 50% growth (USD 410m in FY06 to USD 650m in FY07) in the vertical and is well on track to achieve their targets
- b. Other verticals likely to do well: Apart from BFSI, we expect other verticals like Telecom (19% of revenue), Manufacturing (14%), and Retail (10%) to continue to grow at 40-50% during FY08. For example, in Telecom, BT account (which is almost USD 240m account now) is expected to grow at 40% in FY08. We also see increased traction in the manufacturing vertical as number of RFPs has gone up in the recent past; and,

Figure 2: QoQ growth in telecom vertical revenue for the past eight quarters (%)



Source: Company, Brics Research

Figure 3: QoQ growth in Mfg vertical revenue for the past eight quarters (%)

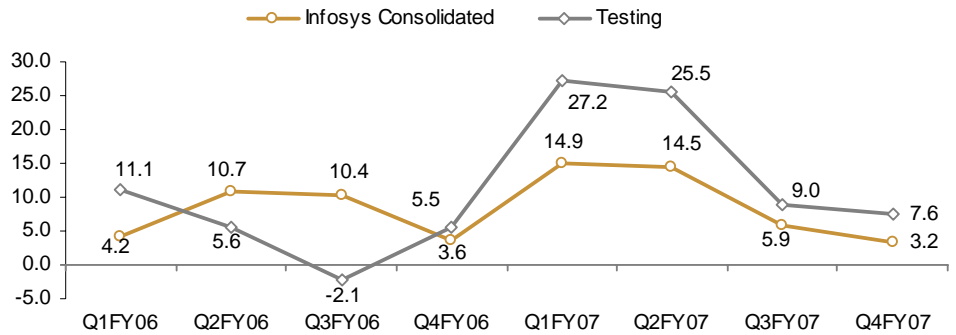


Source: Company, Brics Research

c. Some horizontals would continue to grow at blistering pace: During FY07, horizontals like Testing (7% of revenues) and Infrastructure Management Services (IMS) have shown growth at more than 60% for INFO. This is likely to continue in FY08 as the demand for these services shows no signs of slowdown due to:

- Strong demand in ERP area continues as companies go for upgrades, global roll-outs, newer services like CRM and M&As. Also, Business Intelligence (BI) traction remains very strong with CIOs looking at BI as focus area for FY08
- Demand for IMS remains good as penetration by Indian companies is still less and there is a trend of breaking large deals into smaller pieces (which could help Indian companies); and,
- Testing services growth is likely to continue in FY08. For example, Cognizant revenues from Testing services is expected to double from USD 160m in FY07 to USD 320m in FY08

Figure 4: QoQ growth in Testing Services revenue for the past eight quarters (%)



Source: Company, Brics Research

Overall, we estimate 38% growth in dollar revenues for IT services and consulting for INFO during FY08. This would be based on 31.7% growth in consolidated volumes and 4.8% increase in blended prices during the year. We believe the increase in blended prices would come from improvement in business mix and price hikes (also refer analysis of driver of blended price hikes in the past 2-3 years). We also estimate that product and BPO revenues would grow by 38.5% and 74%, respectively during FY08 in dollar terms. Hence, we expect the consolidated revenue growth for the company during FY08 to be 39.8% in dollar terms.

Figure 5: YoY growth for INFO for select verticals and services in FY07 (%)

| | FY06 | FY07 |
|------------------------------|------|------|
| Infosys Consolidated | 33.5 | 45.9 |
| Insurance | 6.6 | 40.1 |
| Banking & financial services | 51.0 | 54.6 |
| BFSI | 39.3 | 51.6 |
| Telecom | 19.0 | 70.7 |
| Manufacturing | 28.4 | 41.7 |
| Testing | 35.4 | 70.1 |

Source: Company, Brics Research

Difficult to maintain flat margins in this rupee environment

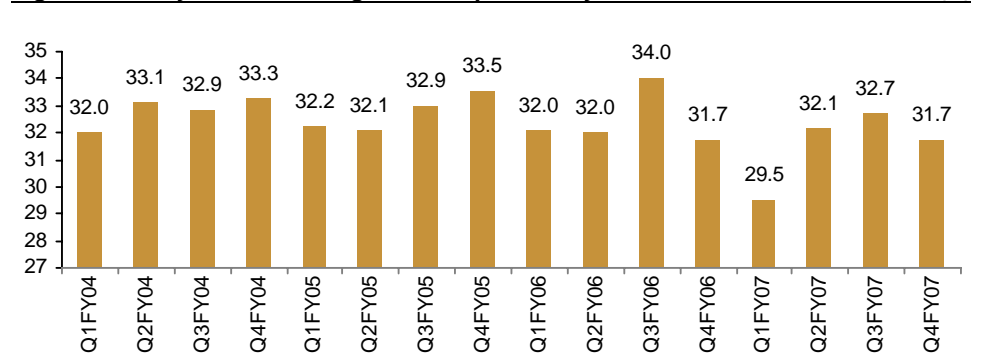
Flat margin assumptions are no longer valid: INFO had given the guidance of maintaining flat operating margins in FY08 at rupee-dollar rate of 43.11. This assumption no longer holds true in this new environment of appreciating rupee. We estimate that INFO has to manage around 650bp negative impact on margins due to rupee appreciation and wage inflation. The company has mentioned that improvement in utilisation (+100-120bp), SG&A (+100-150bp), subsidiaries (+50bp) and other operating efficiencies (+100-150bp) as the main margin levers during the year. We reckon that INFO has to get at least 150bp margin improvement from improved pricing and more offshoring during the year to reach 60bp YoY decline in margins estimated by us. We think that this is possible given that blended prices went up by 4.85% during FY07 and offshore revenue mix actually went down from 47.6% in FY06 to 46.9% in FY07. Hence, we feel that there is scope for moving 100bp of revenue offshore, which can add 70-80bp to the operating margins.

Figure 6: Margin movements in FY08 vs FY07

| Margin lever | Impact (bp) |
|------------------------|-------------|
| Rupee appreciation | (350) |
| Salary hikes | (300) |
| Utilisation | +100 |
| Subsidiary profits | +50 |
| SG&A | +100 |
| Pricing and offshoring | +150-200 |
| Other op efficiencies | +100-150 |
| Net impact | (60) |

Source: Company, Brics Research

Figure 7: Infosys EBIDTA margin for the past four years



Source: Company, Brics Research

Hiring to go up during the year

INFO had announced plans for hiring 24,500 people during FY08 as part of its initial guidance. The management said that they could get additional 3,000-4,000 people by improving the utilisation by 3-4% and rest of hiring would be done as per the requirements.

We have tried to separate the impact of three drivers of employee requirements: a) growth rate, b) attrition, and, c) utilisation, and analysed how the recruitment numbers would go up. Steps followed and assumptions made were as follows:

- Linear relationship was assumed between volume growth rate and employee addition (which is found to be true on average, if data from the past five years is analysed)
- Separation of growth rates and attrition rates for IT services and BPO. This makes sense as growth rates and attrition rates in BPO are found to be much higher (based on recent past data, similar trend is expected in future as well)
- Various volume growth rate and attrition rate scenarios have been assumed for IT services and BPO. For IT services, we have taken growth rates of 25%, **31.7%**, 35% and 40% and attrition rates of 13%, **13.7%**, 14% and 15%, respectively, for the past four years (FY07 growth rate and attrition rate were 41% and 13.7%, respectively)
- For BPO, we have taken growth rates of 35%, 50%, 60% and **70%** and attrition rates of **35%**, 40%, 45% and 50%, respectively (FY07 growth rate and attrition rate were 75% and 40%, respectively); and,
- Net addition is calculated based on growth rates and doing iterations as gross addition and attrition are dependent upon each other

Conclusions

- The number of gross employee additions required by INFO for FY08 would be 26,518 (scenario in which IT services would grow by 25% with 13% attrition and BPO would grow by 35% with 35% attrition). This number would go down to 24,418 if the utilisation goes up by 3% from the existing level of 73%. This number is close to 24,500, which the company had guided for. So, 25% growth in IT services and 35% growth in BPO seem to be the base case based on employee additions, given in the guidance
- For 50% growth in BPO and 30% growth in IT services, INFO needs to hire 33,317 people on the gross levels (assuming utilisation levels going up to 76%). This is more than around 31,000 people hired in FY07. We expect the company to increase the hiring numbers as the year goes by; and,
- For our estimate of 31.7% growth in IT services and 70% growth in BPO, INFO needs to hire approximately 42,128 people (28,132 in IT Services and 13,996 in Infosys BPO) in FY08. After adjusting for utilisation, required addition would be around 39,000 (24,000 in IT services and 15,000 in BPO). We have assumed attrition rates of 13.7% and 35% in IT Services and BPO, respectively

Figure 8: Employee details

| | FY04 | FY05 | FY06 | FY07 | FY08E |
|--|--------|--------|--------|--------|--------|
| Total no of employees (consolidated) | 25,255 | 36,750 | 52,715 | 72,241 | 99,315 |
| Average number of employees | 20,306 | 31,003 | 44,733 | 62,478 | 85,778 |
| Gross addition | 12,368 | 15,646 | 22,868 | 30,946 | 42,129 |
| Net addition | 9,899 | 11,495 | 15,965 | 19,526 | 27,074 |
| Attrition | 2,469 | 4,151 | 6,903 | 11,420 | 15,055 |
| Attrition as percentage of average no of employees (%) | 12.2 | 13.4 | 15.4 | 18.3 | 17.6 |
| Infosys Technologies | | | | | |
| No of employees | 23,377 | 32,784 | 45,694 | 61,015 | 79,521 |
| Average number of employees | 19,107 | 28,081 | 39,239 | 53,355 | 70,268 |
| Gross addition | 10,471 | 12,243 | 17,305 | 22,631 | 28,132 |
| Net addition | 8,541 | 9,407 | 12,910 | 15,321 | 18,506 |
| Attrition | 1,930 | 2,836 | 4,395 | 7,310 | 9,627 |
| Attrition as percentage of average no of employees (%) | 10.1 | 10.1 | 11.2 | 13.7 | 13.7 |
| Infosys BPO | | | | | |
| No of employees | 1,878 | 3,966 | 7,021 | 11,226 | 19,794 |
| Average number of employees | 1,199 | 2,922 | 5,494 | 9,124 | 15,510 |
| Gross addition | 1,898 | 3,403 | 5,563 | 8,315 | 13,996 |
| Net addition | 1,358 | 2,088 | 3,055 | 4,205 | 8,568 |
| Attrition | 540 | 1,315 | 2,508 | 4,110 | 5,428 |
| Attrition as percentage of average no of employees (%) | 45.0 | 45.0 | 45.7 | 45.1 | 35.0 |

Source: Company, Brics Research

Figure 9: Gross addition required in IT Services (at various volume growth & attrition rates)

| | IT services attrition rate (%) | | | |
|-------------------------------|--------------------------------|---------------|--------|--------|
| IT services volume growth (%) | 13.0 | 13.7 | 14.0 | 15.0 |
| 25 | 20,026 | 20,493 | 20,693 | 21,360 |
| 30 | 25,709 | 26,194 | 26,402 | 27,096 |
| 31.7 | 27,641 | 28,132 | 28,343 | 29,046 |
| 35 | 31,391 | 31,895 | 32,111 | 32,831 |

Source: Brics Research

Figure 10: Gross addition required in BPO (at various volume growth & attrition rates)

| | BPO Attrition rate (%) | | | |
|-----------------------|------------------------|--------|--------|--------|
| BPO volume growth (%) | 35 | 40 | 45 | 50 |
| 35 | 6,492 | 7,108 | 7,724 | 8,340 |
| 50 | 9,708 | 10,393 | 11,077 | 11,761 |
| 60 | 11,852 | 12,582 | 13,312 | 14,042 |
| 70 | 13,996 | 14,772 | 15,547 | 16,323 |

Source: Brics Research

Real hikes in prices during FY07

For INFO, the onsite revenue productivity (or onsite dollar rates) went up by 4.4% YoY in FY07 and offshore revenue productivity (or offshore dollar rates) went up by 2.72% during the same period. We have estimated the real hike in rates after removing the effect of the following (see Figure 11):

- **Movement in Euro and GBP against USD:** as company reports revenue productivities in USD after converting Euro and GBP rates into USD
- **Changes in business mix of the company:** as services like ERP and consulting enjoy much higher onsite and offshore rates than ADM kind of business

Conclusions

- Out of 4.4% onsite price hike in FY07, 0.83% came from movement of currencies and 0.67% came from changes in business mix. The real onsite price hike is 2.9% for FY07
- Out of 2.72% offshore price hikes in FY07, 0.83% came from movement of currencies and 0.34% came from changes in business mix. The real offshore price hike is only 1.56% for FY07

Figure 11: Estimated real price hikes in FY07

| | Q4FY06 | Q1FY07 | Q2FY07 | Q3FY07 | Q4FY07 | FY06 | FY07 |
|---|--------|--------|--------|--------|--------|-------|-------|
| Euro-dollar rate | 1.20 | 1.26 | 1.28 | 1.29 | 1.31 | 1.218 | 1.235 |
| Appreciation (%) | | 4.48 | 1.49 | 1.13 | 1.62 | | 1.40 |
| GBP-dollar rate | 1.75 | 1.83 | 1.87 | 1.92 | 1.95 | 1.786 | 1.894 |
| Appreciation (%) | | 4.22 | 2.65 | 2.18 | 2.02 | | 6.07 |
| Onsite pricing increase (%) | | 1.06 | 1.44 | 1.94 | 1.75 | | 4.40 |
| Offshore pricing increase (%) | | 0.19 | 1.09 | 1.69 | 1.38 | | 2.72 |
| Currency-wise revenues | | | | | | | |
| GBP (%) | | 11.57 | 12.20 | 11.82 | 14.10 | | 12.50 |
| Euro (%) | | 4.84 | 4.80 | 5.01 | 4.44 | | 4.80 |
| GBP effect on pricing (%) | | 0.49 | 0.32 | 0.26 | 0.29 | | 0.76 |
| Euro effect on pricing (%) | | 0.22 | 0.07 | 0.06 | 0.07 | | 0.07 |
| Total currency effect on pricing (%) | | 0.71 | 0.39 | 0.32 | 0.36 | | 0.83 |
| Adjusted price increase(after currency) | | | | | | | |
| Onsite (%) | | 0.36 | 1.04 | 1.62 | 1.39 | | 3.57 |
| Offshore (%) | | -0.52 | 0.70 | 1.38 | 1.02 | | 1.89 |
| Effect of business mix change | | | | | | | |
| Package implementation (as a percentage of revenues) | 17.10 | 16.50 | 17.00 | 17.90 | 18.40 | 16.16 | 17.50 |
| Onsite pricing effect (onsite ERP rate 50% higher than ADM) | | -0.30 | 0.25 | 0.45 | 0.25 | | 0.67 |
| Offshore pricing effect (offshore ERP rate 25% higher than ADM) | | -0.15 | 0.13 | 0.23 | 0.13 | | 0.34 |
| Real price hikes (adjusted for change in business mix) | | | | | | | |
| Onsite (%) | | 0.66 | 0.79 | 1.17 | 1.14 | | 2.90 |
| Offshore (%) | | -0.37 | 0.57 | 1.15 | 0.90 | | 1.56 |

Source: Company, Brics Research

Other highlights of the meeting

- As per INFO management, higher revenue productivity will come from change of business mix towards services like package implementation and consulting rather than increase in pricing by clients
- The management do not see shortage of people as a big issue in the short term, and hope that pool of resources will increase in the long term by concerted effort of industry and government
- The management maintains that they target to maintain best margins in the industry
- The nature of competition has changed in deals of size of USD 20-50m as MNCs like Accenture and IBM are much more active in this range of deals also; and,
- INFO has almost 1200 acres of land on which it has already built or plans to build campuses in near future

Change in estimates and new target price

To take care of new rupee rates, we have changed our estimates. Our new assumptions are based on rupee-dollar rate of 41.5 for FY08 and 40 for FY09.

Overall, we estimate 38% growth in dollar revenues for IT services and consulting for INFO during FY08. This would be based on 31.7% growth in consolidated volumes and 4.8% increase in blended prices during the year. We believe that the increase in blended prices would come from both improvements in business mix and price hikes. We also estimate that product and BPO revenues would grow by 38.5% and 74%, respectively during FY08 in dollar terms. Hence, consolidated revenue growth for the company during FY08 would be 39.8% in dollar terms.

For FY09, we estimate that consolidate revenue would grow by 34.9% in dollar terms. In rupee terms, the revenue growth would be 29.1% in FY08 and 30% in FY09 based on rupee-dollar rate of 41.5 in FY08 and 40 in FY09. Also, the EBIDTA margin is expected to fall from 31.6% in FY07 to 31.0% in FY08 and to 30.4% in FY09.

Hence, we arrived at an EPS of INR 83.6 for FY08 and INR 104.8 for FY09.

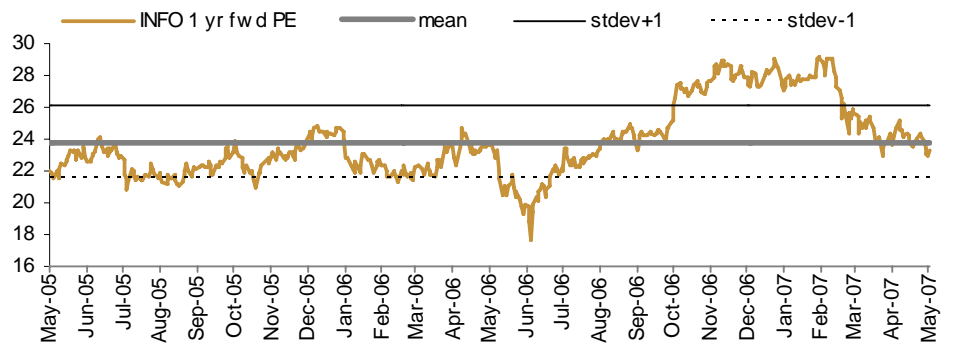
Figure 12: Revision of revenue and EPS estimates

| | Earlier estimates | | Revised estimates | | % change in estimates | |
|-------------------|-------------------|-------|-------------------|-------|-----------------------|-------|
| | FY08 | FY09 | FY08 | FY09 | FY08 | FY09 |
| Revenues (INR bn) | 193.2 | 261.9 | 179.4 | 233.1 | -7.1 | -11.0 |
| EPS (INR) | 86 | 113 | 83.6 | 104.8 | -2.8 | -7.3 |

Source: Company, Brics Research

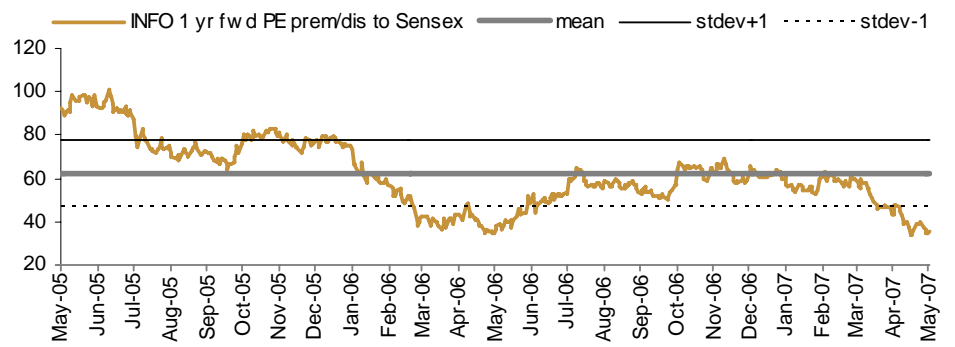
Though we estimate INFO's dollar revenue growth to go down from 43.5% in FY07 to 39.8% in FY08 to 34.9% in FY09, we do not see any slowdown in the long term trend of offshoring IT services and BPO. Based on new EPS estimates, we revise our end FY08 target price to INR 2,515 (24x FY09 estimate of INR 104.8). We continue to maintain **BUY**.

Figure 13: INFO's one-year forward P/E (%)



Source: Brics Research

Figure 14: INFO's one-year fwd P/E premium/discount to Sensex (%)



Source: Brics Research

| Income statement | | | | | | <i>INR m</i> |
|---------------------------------------|---------------|---------------|----------------|----------------|----------------|--------------|
| Year ending 31 March | FY05 | FY06 | FY07 | FY08E | FY09E | |
| Net sales | 71,296 | 95,216 | 138,930 | 179,365 | 233,146 | |
| Growth (%) | 46.9 | 33.5 | 45.9 | 29.1 | 30.0 | |
| Operating expenses | (47,947) | (64,298) | (95,020) | (123,734) | (162,328) | |
| Core EBITDA | 23,350 | 30,918 | 43,910 | 55,631 | 70,818 | |
| Other income | 1,237 | 1,385 | 3,720 | 6,100 | 8,000 | |
| EBITDA | 24,587 | 32,303 | 47,630 | 61,731 | 78,818 | |
| Depreciation | (2,869) | (4,371) | (5,140) | (7,250) | (9,100) | |
| EBIT | 21,718 | 27,932 | 42,490 | 54,481 | 69,718 | |
| Non-recurring items (net of taxes) | 449 | 0 | 1,290 | 0 | 0 | |
| Pre-tax profit | 22,167 | 27,932 | 43,780 | 54,481 | 69,718 | |
| Tax (current + deferred) | (3,256) | (3,132) | (5,110) | (6,538) | (9,412) | |
| Profit after tax | 18,911 | 24,801 | 38,670 | 47,943 | 60,306 | |
| Minority interests | 0 | (202) | (110) | (40) | (40) | |
| Net profit | 18,911 | 24,599 | 38,560 | 47,903 | 60,266 | |
| Adjusted net profit | 18,462 | 24,599 | 37,270 | 47,903 | 60,266 | |
| Growth (%) | 47.3 | 33.2 | 51.5 | 28.5 | 25.8 | |

| Balance sheet | | | | | | <i>INR m</i> |
|---------------------------------------|---------------|---------------|----------------|----------------|----------------|--------------|
| Year ending 31 March | FY05 | FY06 | FY07 | FY08E | FY09E | |
| Current assets | 39,220 | 63,340 | 95,210 | 119,584 | 138,508 | |
| Investments | 12,108 | 7,550 | 250 | 250 | 250 | |
| Fixed assets | 15,742 | 22,260 | 37,710 | 50,460 | 66,360 | |
| Other assets | 444 | 650 | 920 | 920 | 920 | |
| Total assets | 67,513 | 93,800 | 134,090 | 171,214 | 206,038 | |
| Current liabilities | 6,560 | 9,340 | 14,690 | 18,965 | 24,652 | |
| Total debt | 937 | 0 | 0 | 0 | 0 | |
| Other liabilities | 7,765 | 14,120 | 6,810 | 7,832 | 9,006 | |
| Total liabilities | 15,262 | 23,460 | 21,500 | 26,797 | 33,658 | |
| Paid-up capital | 1,353 | 1,380 | 2,860 | 2,865 | 2,875 | |
| Reserves & surplus | 50,898 | 68,280 | 109,690 | 141,512 | 169,465 | |
| Shareholders' funds | 52,251 | 69,660 | 112,550 | 144,377 | 172,340 | |
| Minorities | 0 | 680 | 40 | 40 | 40 | |
| Total equity & liabilities | 67,513 | 93,800 | 134,090 | 171,214 | 206,038 | |

| Cashflow | | | | | | <i>INR m</i> |
|-------------------------------------|-----------------|----------------|-----------------|-----------------|-----------------|--------------|
| Year ending 31 March | FY05 | FY06 | FY07 | FY08E | FY09E | |
| Pre-tax profit | 22,167 | 27,932 | 43,780 | 54,481 | 69,718 | |
| Depreciation | 2,869 | 4,371 | 5,140 | 7,250 | 9,100 | |
| Tax paid | (3,256) | (3,132) | (5,110) | (6,538) | (9,412) | |
| Chg in working capital | (13,095) | 3,549 | (9,410) | (6,852) | (7,726) | |
| Cashflow from operations (a) | 8,684 | 32,721 | 34,400 | 48,341 | 61,680 | |
| Capital expenditure | (7,633) | (9,490) | (20,530) | (20,000) | (25,000) | |
| Chg in investments | (2,653) | 4,558 | 7,300 | 0 | 0 | |
| Other investing activities | (1,748) | (1,134) | (2,220) | 0 | 0 | |
| CF from investing (b) | (12,034) | (6,066) | (15,450) | (20,000) | (25,000) | |
| Free cashflow (a+b) | (3,350) | 26,654 | 18,950 | 28,341 | 36,680 | |
| Equity raised/(repaid) | 5,409 | 6,458 | 13,730 | 5 | 10 | |
| Chg in minorities | 0 | 479 | (750) | (40) | (40) | |
| Debt raised/(repaid) | 1 | (937) | 0 | 0 | 0 | |
| Dividend (incl tax) | (3,520) | (14,120) | (7,510) | (16,116) | (32,344) | |
| Other financing activities | 0 | 0 | 0 | 35 | 30 | |
| CF from financing (c) | 1,891 | (8,120) | 5,470 | (16,116) | (32,344) | |
| Net chg in cash (a+b+c) | (1,459) | 18,535 | 24,420 | 12,225 | 4,337 | |

Key ratios

| Year ending 31 March | FY05 | FY06 | FY07 | FY08E | FY09E |
|-------------------------|--------|--------|--------|--------|--------|
| Adjusted EPS (INR) | 33.3 | 44.4 | 66.9 | 83.6 | 104.8 |
| Adjusted EPS growth (%) | 47.3 | 33.2 | 50.6 | 24.9 | 25.4 |
| Core EBITDA growth (%) | 46.5 | 32.4 | 42.0 | 26.7 | 27.3 |
| Core EBITDA margin (%) | 32.8 | 32.5 | 31.6 | 31.0 | 30.4 |
| Pre-tax margin (%) | 31.1 | 29.3 | 31.5 | 30.4 | 29.9 |
| ROE (%) | 43.6 | 40.4 | 40.9 | 37.3 | 38.1 |
| ROCE (%) | 40.9 | 38.4 | 41.7 | 40.1 | 41.8 |
| Net debt/Equity (%) | (28.4) | (49.2) | (52.2) | (49.1) | (43.7) |

Valuation parameters

| Year ending 31 March | FY05 | FY06 | FY07 | FY08E | FY09E |
|----------------------|------|------|------|-------|-------|
| PER (x) | 59.2 | 44.4 | 29.5 | 23.6 | 18.8 |
| PCE (x) | 51.2 | 37.7 | 25.9 | 20.5 | 16.4 |
| Price/Book (x) | 20.9 | 15.7 | 9.8 | 7.8 | 6.6 |
| Yield (%) | 0.3 | 1.1 | 0.6 | 1.3 | 2.5 |
| EV/Net sales (x) | 15.6 | 11.5 | 7.7 | 5.9 | 4.5 |
| EV/Core EBITDA (x) | 47.6 | 35.3 | 24.3 | 19.0 | 14.8 |

Infosys: Recommendation history

| Date | Stock price (INR) | Recommendation | Price target (INR) | Report |
|------------------|-------------------|----------------|--------------------|---|
| 7-Aug-06 | NA | BUY | 2061 | Analyst meet note |
| 5-Oct-06 | 1803 | BUY | 2074 | The ace: Best-placed Indian vendor to graduate to 'strategic partner' |
| 11-Oct-06 | 1981 | BUY | 2230 | Q2FY07 result: Another Blow-out quarter - We upgrade estimates and raise target price |
| 21-Dec-06 | 2172 | BUY | 2837 | Upward revision of price target: INFO gets a P/E boost on entering NASDAQ 100 |
| 11-Jan-07 | 2183 | BUY | 2837 | Q3FY07 result: In line with our estimates - Quarterly numbers are decent, given rupee's appreciation |
| 12-Feb-07 | 2362 | BUY | 3316 | Visit note and revision of price targets |
| 30-Mar-07 | NA | NA | NA | INFO - Business as usual (BAU) - We remain bullish |
| 12-Apr-07 | 1992 | BUY | 2759 | No slowdown in demand: We remain positive |
| 13-Apr-07 | 2088 | BUY | 2713 | Quarterly numbers slightly below our expectations: Outlook remains good, we reiterate Buy |
| 16-Apr-07 | 2088 | BUY | 2713 | Grey linings around silver clouds |
| 16-May-07 | 1973 | BUY | 2515 | Rupee appreciation remains the main concern - We revise estimates and target price downwards, maintain BUY |

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