

# Strong demand, improving mix

## Tweaking estimates, maintain Buy with a PO of Rs450

Post Q4 results we have tweaked FY08 and FY09 EPS estimates marginally by -2% and +1% and increased our PO to Rs450 (earlier PO at Rs400). This is at 15x FY09E, in line with current FY08E PE and a 0.6x FY08E to FY07-09E PEG. Q4 fell short of expectation with modest Engg. Services (EMI) growth of 4.5% and higher than expected margin pressure. However, revenue momentum appears strong.

## Q4 margins below expectation

Infotech's Q4 revenue was in line with MLe, driven by Geospatial Solutions Design (GSD) and Europe geography. EBITDA margin was 170bps below MLe, down 220bps qoq due to Rupee/USD appreciation (-60bps), increase in rents on leased premises (-40bps), and higher than expected hiring cost (-100bps). PAT beat MLe by 6%, helped by higher share of profits from IASI (Infotech Aerospace Services Inc) as government grants of ~US\$2.2mn came in this quarter.

## Robust revenue outlook; Improving mix

Infotech mentioned that the sluggish growth in EMI was a quarterly variation, and appeared confident of 55-60% FY08 growth in EMI. EMI forecast is supported by an order backlog covering 60% of the projected growth and annual contracted pricing increases estimated at 4%. Management is also targeting 25-30% GSD growth in FY08 aided by strength in Europe and a rebound in US. The revenue mix is likely to improve with Infotech winning more end to end solution deals.

## Forecast stable margins led by mix, operational efficiencies

We believe Infotech will be able to maintain EBITDA margins at FY07 levels of 21% despite appreciating Rupee due to improving mix, pricing increases from existing clients and increase in utilization. As the company moves operations to owned campuses, cost of lease rentals should also come down going forward.

## Estimates (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	274	503	837	1,132	1,442
EPS	6.20	11.02	18.33	24.50	31.21
EPS Change (YoY)	201.3%	77.8%	66.2%	33.7%	27.4%
Dividend / Share	0.375	0.563	1.13	1.50	1.50
Free Cash Flow / Share	1.14	0.174	(3.00)	0.482	12.08

## Valuation (Mar)

	2005A	2006A	2007E	2008E	2009E
P/E	59.51x	33.47x	20.13x	15.06x	11.82x
Dividend Yield	0.102%	0.152%	0.305%	0.407%	0.407%
EV / EBITDA*	35.44x	24.77x	14.68x	10.29x	7.79x
Free Cash Flow Yield*	0.298%	0.047%	-0.812%	0.132%	3.31%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 7.



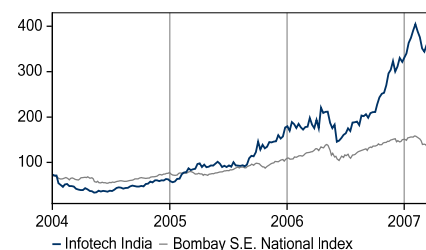
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## Stock Data

Price	Rs368.95
Price Objective	Rs400.00 to Rs450.00
Date Established	18-Apr-2007
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs126.67-Rs447.00
Mrkt Val / Shares Out (mn)	US\$401 / 45.7
Average Daily Volume	23,849
ML Symbol / Exchange	IFKFF / BSE
Bloomberg / Reuters	INFTC IN / INFE.BO
ROE (2007E)	33.7%
Net Dbt to Eqty (Mar-2006A)	-15.1%
Est. 5-Yr EPS / DPS Growth	24.0% / 18.0%
Free Float	60.0%



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Refer to important disclosures on page 8 to 9. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

19 April 2007

# *iQprofile*<sup>SM</sup> Infotech Enterprises Ltd.

## Key Income Statement Data (Mar)

	2005A	2006A	2007E	2008E	2009E
<b>(Rs Millions)</b>					
Sales	2,571	3,625	5,425	7,729	10,403
Gross Profit	1,347	1,929	2,836	3,975	5,311
Sell General & Admin Expense	(878)	(1,257)	(1,702)	(2,357)	(3,173)
Operating Profit	302	486	878	1,324	1,747
Net Interest & Other Income	37	10	53	20	24
Associates	NA	NA	NA	NA	NA
Pretax Income	339	497	931	1,344	1,771
Tax (expense) / Benefit	(90)	(94)	(187)	(282)	(390)
Net Income (Adjusted)	274	503	837	1,132	1,442
Average Fully Diluted Shares Outstanding	44	46	46	46	46

## Key Cash Flow Statement Data

Net Income (Reported)	274	503	837	1,132	1,442
Depreciation & Amortization	167	186	256	294	390
Change in Working Capital	(112)	(288)	(494)	(650)	(780)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(42)	(36)	(81)	6	6
Cash Flow from Operations	287	365	517	782	1,058
Capital Expenditure	(237)	(357)	(654)	(760)	(500)
(Acquisition) / Disposal of Investments	3	0	0	0	0
Other Cash Inflow / (Outflow)	(69)	(79)	54	(25)	0
Cash Flow from Investing	(303)	(436)	(600)	(785)	(500)
Shares Issue / (Repurchase)	11	100	0	0	0
Cost of Dividends Paid	(20)	(26)	(24)	(27)	(28)
Cash Flow from Financing	(23)	114	(85)	(45)	(48)
Free Cash Flow	50	8	(137)	22	558
Net Debt	(326)	(321)	(199)	(149)	(659)
Change in Net Debt	24	5	121	50	(510)

## Key Balance Sheet Data

Property, Plant & Equipment	327	683	1,084	1,572	1,704
Other Non-Current Assets	390	312	261	264	242
Trade Receivables	872	1,223	1,843	2,626	3,534
Cash & Equivalents	340	385	217	169	679
Other Current Assets	114	266	139	155	155
Total Assets	2,044	2,869	3,544	4,786	6,315
Long-Term Debt	14	65	18	20	20
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	465	680	679	828	956
Total Liabilities	479	745	697	848	976
Total Equity	1,564	2,123	2,847	3,938	5,338
Total Equity & Liabilities	2,044	2,868	3,544	4,786	6,315

## *iQmethod*<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	13.7%	18.9%	25.7%	28.9%	28.0%
Return On Equity	19.1%	27.3%	33.7%	33.4%	31.1%
Operating Margin	11.8%	13.4%	16.2%	17.1%	16.8%
EBITDA Margin	18.3%	18.5%	20.9%	20.9%	20.6%

## *iQmethod*<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	1.0x	0.7x	0.6x	0.7x	0.7x
Asset Replacement Ratio	1.4x	1.9x	2.6x	2.6x	1.3x
Tax Rate (Reported)	26.5%	18.9%	20.0%	21.0%	22.0%
Net Debt-to-Equity Ratio	-20.8%	-15.1%	-7.0%	-3.8%	-12.4%
Interest Cover	NM	44.2x	NM	NM	NM

## Key Metrics

Sales Growth	37.2%	41.0%	49.7%	42.5%	34.6%
EBITDA GROWTH	60.9%	43.1%	68.7%	42.7%	32.1%
Net Income Growth	204.3%	83.8%	66.2%	35.3%	27.4%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 7.

## Company Description

Infotech is a mid-tier Indian IT services company providing geographical information system (GSI) services to utility, transportation, & government (UTG) segments, engineering design services to engineering, manufacturing, & industrial (EMI) product segments, & software services to both these segments. It has leadership positions in offshore GIS data conversion services for UTG segment & offshore mechanical design services for the EMI segment.

## Stock Data

Price to Book Value	5.9x
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## Tweaking estimates, Maintain Buy

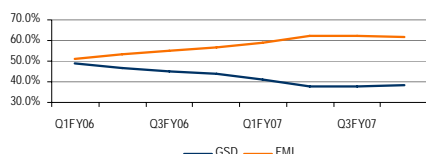
Infotech's Q4 results were in line with MLe on revenue. But EBITDA margin was 170bps below MLe, down 220bps qoq due to Rupee/USD appreciation (-60bps), increase in rents on leased premises (-40bps), and hiring cost (-100bps). Effective tax rate was lower in Q4 as a larger portion of the tax for FY07 was paid till Q3FY07. PAT beat MLe by 6% due to higher share of profits from IASI.

Post Q4 results we have tweaked FY08 and FY09 EPS estimates marginally by -2% and +1% and increased our PO to Rs450 (earlier PO at Rs400). New PO offers 21% potential upside from current levels.

**Table 1: Q4FY07 results**

P&L (INR mn)	Q4FY07E	Q3FY07	QoQ	Q4FY06	YoY	ML est	Variation	FY07	FY06	YoY
Rev from soft sales	1,512	1,430	5.7%	1,078	40.3%	1,539	-1.8%	5,425	3,625	49.7%
Personnel cost	744	656	13.4%	495	50.4%	722	3.0%	2,590	1,701	52.3%
Travel	137	126	9.1%	98	39.6%	135	1.1%	482	328	46.8%
Purchase for resale	146	168	-13.4%	161	-9.5%	177	-17.6%	617	463	33.1%
Other expenses	178	158	12.3%	126	41.0%	166	7.0%	604	475	27.0%
<b>Total</b>	<b>1,204</b>	<b>1,108</b>	<b>8.7%</b>	<b>879</b>	<b>36.9%</b>	<b>1,200</b>	<b>0.3%</b>	<b>4,292</b>	<b>2,967</b>	<b>44.6%</b>
<b>EBITDA</b>	<b>308</b>	<b>323</b>	<b>-4.5%</b>	<b>199</b>	<b>55.2%</b>	<b>339</b>	<b>-9.2%</b>	<b>1,134</b>	<b>658</b>	<b>72.4%</b>
Depreciation	74	66	11.7%	48	52.8%	68	8.4%	256	186	37.9%
EBIT	235	257	-8.6%	151	55.9%	272	-13.6%	878	472	86.0%
Other Income	19	0	9150.0%	14	32.1%	7	164.3%	67	34	99.4%
Interest	2	5	-52.1%	6	-62.9%	4	-42.5%	14	9	56.2%
PBT	251	252	-0.5%	158	58.5%	275	-8.6%	931	497	87.4%
Taxation	44	52	-16.7%	36	21.5%	60	-28.0%	187	94	98.2%
Net Profit	207	200	3.7%	123	69.3%	214	-3.2%	744	403	84.9%
Share of IASI profit	41	(12)		43	-4.6%	20	107.0%	93	101	-8.1%
<b>PAT incl. sh of IASI rmgn</b>	<b>249</b>	<b>188</b>	<b>32.6%</b>	<b>166</b>	<b>50.0%</b>	<b>234</b>	<b>6.2%</b>	<b>837</b>	<b>503</b>	<b>66.3%</b>
<b>Margins</b>										
EBITDA	20.4%	22.6%	-217bps	18.4%	196bps	22.0%	-166bps	20.9%	18.1%	276bps
EBIT	15.5%	18.0%	-243bps	14.0%	156bps	17.6%	-212bps	16.2%	13.0%	316bps
PAT	16.5%	13.1%	333bps	15.4%	107bps	15.2%	124bps	15.4%	13.9%	154bps
Effective tax rate	17.3%	20.7%	-336bps	22.6%	-528bps	22.0%	-466bps	20.0%	18.9%	109bps

Source: Company

**Chart 1: Increasing revenue proportion of high margin EMI**


Source: Company

**Table 2: Earnings tweaked marginally**

	New		Old		Change	
	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
Revenue	7,729.3	10,402.8	7,472.9	9,909.9	3.4%	5.0%
EBITDA	1,617.9	2,137.9	1,614.5	2,065.7	0.2%	3.5%
EBITDA Margin	20.9%	20.6%	21.6%	20.8%	-67bps	-29bps
PAT	1,132.1	1,441.8	1,137.0	1,413.0	-0.4%	2.0%
EPS	24.5	31.2	24.9	31.0	-1.6%	0.8%

Source: Merrill Lynch Estimates

## Financial tables

**Table 3: Profit and loss statement**

Year to March, Rs million	FY05	FY06	FY07	FY08E	FY09E
<b>Revenues</b>	<b>2,571.3</b>	<b>3,625.0</b>	<b>5,425.4</b>	<b>7,729.3</b>	<b>10,402.8</b>
Personnel Expenses	1,223.9	1,696.5	2,589.4	3,753.9	5,092.1
Operating & Admin Expenses	877.7	1,256.5	1,702.2	2,357.4	3,172.8
Total operating expenses	2,102	2,953	4,292	6,111	8,265
<b>EBIDTA</b>	<b>469.7</b>	<b>672.0</b>	<b>1,133.8</b>	<b>1,617.9</b>	<b>2,137.9</b>
Other Income	39.5	21.3	66.8	40.0	44.0
Interest expense, net	2.5	11.0	13.9	20.0	20.0
Depreciation & Amortization	167.3	185.7	256.0	293.5	390.4
<b>EBIT</b>	<b>302.4</b>	<b>486.3</b>	<b>877.8</b>	<b>1,324.4</b>	<b>1,747.5</b>
<b>Profit before Tax</b>	<b>339</b>	<b>497</b>	<b>931</b>	<b>1,344</b>	<b>1,771</b>
Provision for Tax	90.1	94.0	186.5	282.3	389.7
<b>Profit after tax</b>	<b>249.3</b>	<b>402.6</b>	<b>744.2</b>	<b>1,062.1</b>	<b>1,381.8</b>
Share of IASI profit	25	101	93	70	60
<b>Profit after tax incl IASI share</b>	<b>274</b>	<b>503</b>	<b>837</b>	<b>1,132</b>	<b>1,442</b>

Source: Merrill Lynch Research, Company

**Table 4: Balance sheet**

As at 31st March, Rs mn	FY05	FY06	FY07E	FY08E	FY09E
Share Capital	147	152	228	228	228
Reserves & Surplus	1,417	1,971	2,619	3,710	5,110
<b>Shareholders funds</b>	<b>1,564</b>	<b>2,123</b>	<b>2,847</b>	<b>3,938</b>	<b>5,338</b>
Debt	14	65	18	20	20
<b>Source of funds</b>	<b>1,578</b>	<b>2,188</b>	<b>2,865</b>	<b>3,958</b>	<b>5,358</b>
Gross Fixed Assets	1,324	1,811	2,446	3,206	3,706
Accumulated depreciation	860	1,014	1,270	1,563	1,954
Net Fixed Assets	463	798	1,177	1,643	1,753
Capital WIP	141	11	30	30	30
Investments	100	179	125	150	150
<i>Current Assets:</i>					
Inventories	2	1	4	5	5
Sundry Debtors	872	1,223	1,843	2,626	3,534
Cash & Cash equivalents	340	385	217	169	679
Loans & Advances	112	265	135	150	150
<i>Current Liabilities</i>	<i>358</i>	<i>525</i>	<i>400</i>	<i>425</i>	<i>425</i>
<i>Provisions</i>	<i>108</i>	<i>156</i>	<i>279</i>	<i>403</i>	<i>531</i>
<b>Working Capital</b>	<b>861</b>	<b>1,194</b>	<b>1,520</b>	<b>2,122</b>	<b>3,412</b>
Deferred Tax asset	13	8	13	13	13
<b>Application of funds</b>	<b>1,578</b>	<b>2,189</b>	<b>2,865</b>	<b>3,958</b>	<b>5,358</b>

Source: Merrill Lynch Research, Company

**Table 5: Cash flow statement**

Year to March, Rs million	FY05	FY06	FY07E	FY08E	FY09E
PAT	273.9	503.3	836.7	1,132.1	1,441.8
Depreciation	167.3	185.7	256.0	293.5	390.4
Interest	2.5	11.0	13.9	20.0	20.0
(Inc) / Dec in Working capital	(111.8)	(287.6)	(494.3)	(649.6)	(780.1)
Others	(44.9)	(47.1)	(94.9)	(13.7)	(13.9)
<b>Net cash from operations</b>	<b>287.0</b>	<b>365.2</b>	<b>517.4</b>	<b>782.3</b>	<b>1,058.1</b>
Investments	(68.9)	(79.0)	53.8	(25.0)	-
Capital expenditure	(236.9)	(357.3)	(654.3)	(760.0)	(500.0)
Acquisitions / JV	3.0				
Others					
<b>Net cash from investing</b>	<b>(302.7)</b>	<b>(436.3)</b>	<b>(600.4)</b>	<b>(785.0)</b>	<b>(500.0)</b>
<b>Free Cash Flow</b>	<b>50.2</b>	<b>8.0</b>	<b>(136.8)</b>	<b>22.3</b>	<b>558.1</b>
Issue of equity	10.7	99.8	-	-	-
Inc / (Dec) in Debt	(11.7)	50.6	(46.6)	2.0	-
Dividends	(19.9)	(25.6)	(24.5)	(27.5)	(27.7)
Interest	(2.5)	(11.0)	(13.9)	(20.0)	(20.0)
Others					
<b>Net cash from financing</b>	<b>(23.4)</b>	<b>113.8</b>	<b>(85.0)</b>	<b>(45.5)</b>	<b>(47.7)</b>
Exchange differences	3.9	2.9	-	-	-
<b>(Dec) / Inc in cash</b>	<b>(35.2)</b>	<b>45.6</b>	<b>(168.0)</b>	<b>(48.2)</b>	<b>510.4</b>
Cash balance at the beginning	374.8	339.6	385.2	217.2	169.0
Cash balance at the end	339.6	385.2	217.2	169.0	679.5

Source: Merrill Lynch Research, Company

**Table 6: Key ratios**

Year to 31st March	FY05	FY06	FY07E	FY08E	FY09E
<b>Growth (%)</b>					
Revenues	37.2	41.0	49.7	42.5	34.6
Net profit	204.3	83.8	66.2	35.3	27.4
EBIDTA	60.9	43.1	68.7	42.7	32.1
EBIT	192.1	46.3	87.4	44.4	31.8
<b>Valuation (x)</b>					
EPS (Rs)	6.2	11.0	18.3	24.5	31.2
CFPS (Rs)	10.0	15.1	23.9	30.9	39.7
BVPS (Rs)	35.4	46.5	62.4	85.2	115.5
CPS (Rs)	5.2	2.6	1.8	0.4	11.5
Net Debt	(437.3)	(585.7)	(334.2)	(299.0)	(809.5)
FCF per share	1.14	0.17	(3.00)	0.48	12.08
<b>Profitability (%)</b>					
EBITDA margin	18.3	18.5	20.9	20.9	20.6
Net Profit margin	10.7	13.9	15.4	14.6	13.9
ROE	19.1	27.3	33.7	33.4	31.1
ROCE	14.6	20.8	27.4	30.5	29.1
<b>Turnover (times)</b>					
Debtor days	124	123	124	124	124
Total Assets	1.6	1.7	1.9	2.0	1.9
Net fixed assets	5.5	4.5	4.6	4.7	5.9

Source: Merrill Lynch Research, Company

## Price Objective Basis & Risk

Our PO of Rs450 is based on 15x FY09E, broadly in line with the current multiple on FY08E, supported by an expected ~31% 2-yr EPS CAGR over FY07-09E. Key risks to our estimates are 1) Non-annuity revenues in GIS, 2) Increasing competition from large Indian IT vendors, 3) Threat of captive in engineering services and 3) Rupee appreciation and industry wide wage inflation.

## Analyst Certification

I, Mitali Ghosh, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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19 April 2007

## *iQmethod*<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) \* (1 - Tax Rate) + Goodwill

Amortization

Net Income

Operating Profit

Expected 5-Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt, Less Cash &amp; Equivalents

EBIT

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price \* Current Shares + Minority Equity + Net Debt + Sales

Other LT Liabilities

Enterprise Value

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap. = Current Share Price \* Current Basic Shares

Basic EBIT + Depreciation + Amortization

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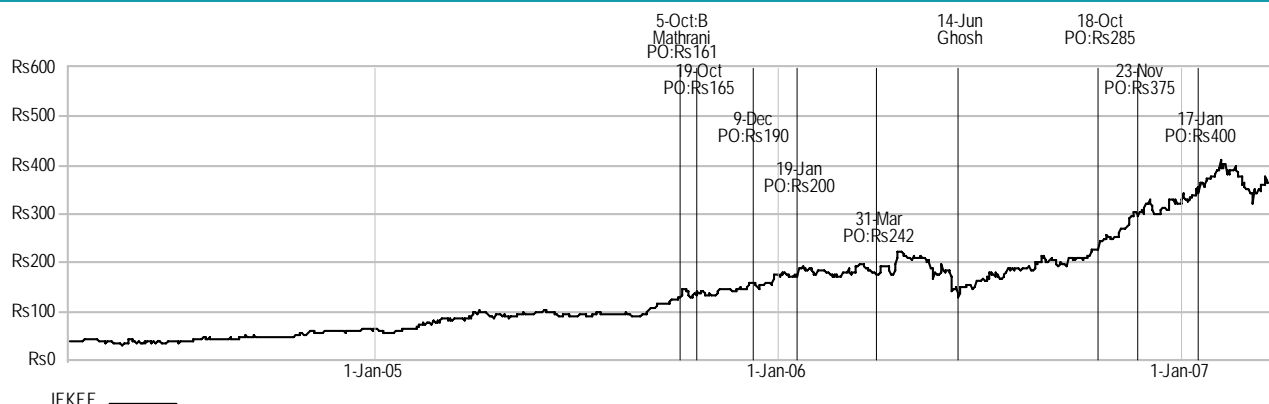
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19 April 2007

## Important Disclosures

### IFKFF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of March 31, 2007 or such later date as indicated.

### Investment Rating Distribution: Technology Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	114	41.76%	Buy	21	20.39%
Neutral	146	53.48%	Neutral	31	22.79%
Sell	13	4.76%	Sell	1	9.09%

### Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

\* Companies in respect of which MLPS or an affiliate has received compensation for investment banking services within the past 12 months.

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