

Infosys Technologies Ltd.

Result Update

Sector: Computers-Software	CMP: Rs.2087	Book Value: 195.1 Rs.	Avg. Daily Vol. (6m): 281604
BSE Code: 500209	Trailing EPS: Rs 67.7	M Cap: Rs.11, 81,915 mn	% Price Perf. (1m/3m/6m):0.5 /-6.1/-0.1
NSE Code: INOSYSTech	Trailing P/E: 30.8x	Free Float: 83%	52 week High/Low: Rs.2439 /1225

Background

Mr. Nandan Nilekani, Co-Chairman and Mr. Kris Gopalakrishnan CEO, addressed the Conference Call held on April 13, 2007 to discuss and review the results of the company. Infosys has recorded a net profit of Rs 11,440 mn for Q4 FY07, an increase of 16.4% on Q-o-Q basis.

Highlights

- The revenue for Q4FY07 has increased to Rs 37,720 mn from Rs 36,550 mn i.e. by 3.2% on Q-o-Q, as third quarter (lesser number of working days) and fourth quarter (clients revise their budget) are traditionally weaker quarters as compared to first and second quarters. The dollar term growth is 5.1% i.e. from \$821mn to \$863 mn.
- Infosys's Q4 FY07 **EBITDA margin fell by 100 bps** to 31.7% on Q-o-Q, mainly due to rupee appreciation against dollar by 1.7% in March quarter (62.6% of revenue in Q4 FY07 were derived from North America) and higher selling and marketing expenses (up by 13.6% on Q-o-Q basis), which were partially offset by improvement in billing rate. Pricing for onsite and offshore was up 1.7% and 1.3% respectively on Q-o-Q basis. This is 4th consecutive quarter in which Infosys was able to increase the prices. Infosys has taken forward cover of \$470 mn in order to hedge against foreign exchange risk.
- The net profit for Q4 FY07 has increased by 16.4% at 11,440 mn from Rs 9,830 mn Q-o-Q. This includes a reversal of tax provisions amounting to Rs.1, 240 mn. **Also other income increased to Rs. 1200 mn from Rs.720 mn, as yield on investment increased from 7% to 10% on Q-o-Q basis.** EPS was up by 15.7% (on Q-o-Q basis) to Rs.19.95, as there was an equity dilution by 13-mn shares, which were issued on account of ESOPs.
- Infosys's BPO business grew by 10% Q-o-Q basis in US \$ terms. Infosys's consulting business and Chinese subsidiaries are still in investment phase. Management expects **Chinese subsidiaries to breakeven in FY08**. Infosys's BPO business is expected to touch \$215 mn in FY08 (enabling it to be one of the top 3 players in India) from \$147 mn in FY07 and consulting business is expected to grow by 25% in FY08. As per the management, they are able to convert consulting business into 2-3 times its down stream business at higher prices, when compared with company's average billing rate for down stream business.
- It has added 5992 (net addition 2809) employees for IT and BPO operations in Q4 FY07, taking the headcount at the end of FY07 to 72,241 and is planning to add about **24,500 people at gross level in the FY08** (7000 in BPO and 17,500 in IT). **Attrition rate has increased to 13.7% in Q4 FY07** as compared to 13.5% in Q3 FY07, as in-voluntary attrition increased (in-voluntary attrition means trainees fail to clear induction programme of Infosys), otherwise as per management the attrition rate has remained unchanged. Employee utilization (excluding trainees) fell to 73% from 75.8% on Q-o-Q basis. **Salary hike in FY08 is expected to be around 12% - 15%.**
- Management reckons that IT companies are facing pressure on supply side (inflows of freshers from institutes), as there is no major increase in number of quality engineering institutes, whereas

demand for IT engineers have increased considerably. Hence it is **planning to hike offers to freshers by 11%**, as compared to the previous year.

- ❑ It has added 34 clients in Q4 FY07 (as compared to 43 clients addition in Q3 FY07) taking total number of active clients to 500 from 488 at the end of FY07. Number of clients contributing million dollar + increased to 275 in Q4 FY07 from 256 in Q3 FY07 and number of 100 million and 200 million dollar + clients increased by 1 for the same period. **Inspite of fear of slow down from ABN Amro account and British Telecom (BT), Infosys has received new contract of sub \$50 mn from ABN Amro and BT account increased by more than 15.5% on Q-o-Q basis.**
- ❑ **Revenue guidance for FY08 is Rs.170, 038 mn to Rs.170, 308 mn** (i.e. 22.6-24.6% growth on Y-o-Y basis) **and EPS guidance is Rs.80.29 to Rs. 81.58** (i.e. 20-22% growth on Y-o-Y basis), without considering tax reversal of Rs.1, 240 mn in FY07. Management has considered **3% equity dilution in FY08**; hence EPS growth is lower than that of revenue growth. Guidance given by the management is without considering inorganic growth or realization from 10-12 large deals it is currently pursuing.
- ❑ Impact of revenue appreciation on margin is expected to be 150 bps, whereas that of wage inflation is expected to be 300 bps in FY08. **Management expects 450 bps impact on margin to be set off by improvement in utilization rate from 73% to 77%** (i.e. utilization level of FY06), **lower SG&A** (Selling, general and administration) **expenses and turnaround in loss making subsidiaries**. It is estimated that 1% improvement in utilization level will lead to 40 bps improvements in margin. Tax rate is expected to be in range of 11.5%-12% in FY08 i.e. in line with FY07.
- ❑ With respect to the latest fears of US economic slow down and its impact on India IT companies, the management contended that US companies are still positive on this front and do not foresee any let up in outsourcing. Also, faced with a challenge of maintaining profit margins, a trend is being seen towards increase in outsourcing demand for IT services from European companies, which hitherto had been contributing only 23% of IT exports from India.
- ❑ Revenue for Q1 FY08 is expected to grow by 3.7% to Rs.39, 130 mn and EPS of Rs.17.84 i.e. degrowth of 1.5% (excluding impact of tax write back in Q4 FY07) on Q-o-Q basis. Degrowth is mainly due to salary hike and visa cost in Q1 FY08.

Earning Summary

(Rs Millions)

Particulars	Q4FY07	Q4FY06	%Chg	Q3FY07	%Chg
Net Sales	37720	26240	43.8	36550	3.2
Cost of revenue	20210	14220	42.1	19380	4.3
Gross Profit	17510	12020	45.7	17170	2.0
Operating expenses	5540	3690	50.1	5210	6.3
EBITDA	11970	8330	43.7	11960	0.1
Other income	1200	720	66.7	590	103.4
Depreciation	1450	1440	0.7	1410	2.8
Profit before tax	11720	7610	54.0	11140	5.2
Taxes	270	810	-66.7	1300	-79.2
Income from operations	11450	6800	68.4	9840	16.4
Minority	10	70	-85.7	10	0.0
Net Profit	11440	6730	70.0	9830	16.4
EPS (basic)	20.3	12.23	66.0	17.64	15.1
EPS (diluted)	19.95	11.92	67.4	17.24	15.7
Profitability Ratios					
PBIDTM (%)	31.73	31.75	-	32.72	-
PBTM (%)	31.07	29.00	-	30.48	-
NPM (%)	30.33	25.65	-	26.89	-

Source: Company

Notes

HNI Sales

Bharat Patel

Tel.: 91-22-28577303/28577309

Institutional Sales

Sharmila Joshi

Tel.: 91-22-22695078 / 22700119-
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