

April 15, 2008

Rating	Market Performer
Price	Rs1,510
Target Price	Rs1,606
Implied Upside	6.4%
Sensex	16,154

(Prices as on April 15, 2008)

Trading Data

Market Cap. (Rs bn)	879.9
Shares o/s (m)	556.9
Free Float	83.5%
Avg. Daily Vol ('000)	273.2
Avg. Daily Value (Rs m)	408.3

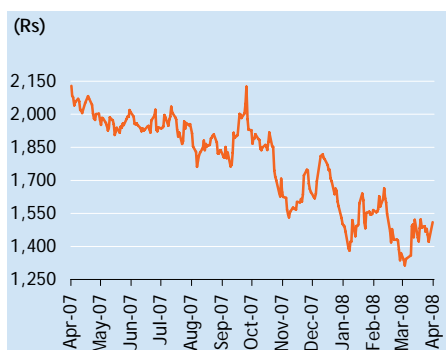
Major Shareholders

Promoters	16.5%
Foreign	33.2%
Domestic Inst.	26.3%
Public & Others	24.0%

Stock Performance

(%)	1M	6M	12M
Absolute	(0.4)	(28.0)	(28.6)
Relative	1.5	(12.0)	(48.5)

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



Source: Bloomberg

Infosys Technologies

Results in line, decent guidance

- **Results:** Infosys reported Q4FY08 numbers in line with expectations, sans any positive or negative surprises. Consolidated revenue grew by 6.3% QoQ in rupee terms to Rs45.42bn, while PAT witnessed a nominal 1.5% QoQ growth at Rs12.49bn. Op. margin remained flattish (5bps decline) while PAT margin declined 133bps on the back of lower other income. Fourth quarter numbers also contain a write-back of tax provision to the tune of Rs200m for Q4FY08 and Rs1,200m for FY08. Pricing increase during the quarter was 0.4% offshore and flattish onsite (0.2% blended).
- **Deal pipeline remains strong:** The management has reported having won four major deals (US\$50m and above) and added 40 new clients, including one client in the range of (US\$200m-\$300m). As in Q3FY08, revenue from top client grew 15% QoQ, significantly above the company growth average. Infosys indicated that there was no let-up in the strength of deal pipeline, as it is currently pursuing 14-15 deals above US\$50m. Management survey of top clients showed about 76% of them indicating flattish IT budgets (or marginal declines) even as the outsourcing component seemed poised to grow, benefiting Infosys.
- **FY09 guidance:** The company has guided for FY09 revenue in the range of Rs19.89bn to Rs20.21bn, and EPS of Rs92.32 to Rs93.92. The guidance implies a 19.2-21.1% revenue growth and 16.3-18.3% earnings growth. Management targets headcount addition for next year at 25,000.
- **Valuation:** We expect Infosys to report earnings growth of 19.0% and 10.8% in FY09 and FY10 respectively. Given the modest growth outlook and uncertain demand environment, we remain neutral on the stock's prospects going forward. At the CMP of Rs1,511, it quotes at 14.1x FY10E earnings. We maintain Market Performer rating with a target price of Rs1,608 (15x FY10E earnings).

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	138,930	166,920	203,708	249,957
Growth (%)	45.9%	20.1%	22.0%	22.7%
EBITDA (Rs m)	43,910	52,380	65,751	77,898
PAT (Rs m)	38,620	46,590	55,724	62,077
EPS (Rs)	67.6	81.3	96.7	107.2
Growth (%)	48.8	20.2	19.0	10.8
Net DPS (Rs)	11.65	33.0	24.0	28.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	31.6	31.4	32.3	31.2
RoE (%)	42.3	37.2	35.3	31.1
RoCE (%)	42.3	37.2	35.3	31.1
EV / sales (x)	5.8	4.8	3.8	3.0
EV / EBITDA (x)	18.4	15.2	11.7	9.5
PE (x)	22.3	18.6	15.6	14.1
P / BV (x)	7.7	6.3	4.9	3.9
Net dividend yield (%)	0.8%	2.2%	1.6%	1.9%

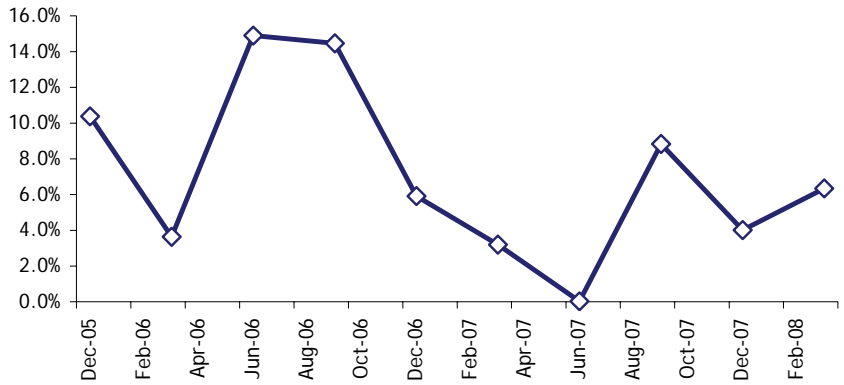
Source: Company Data; PL Research

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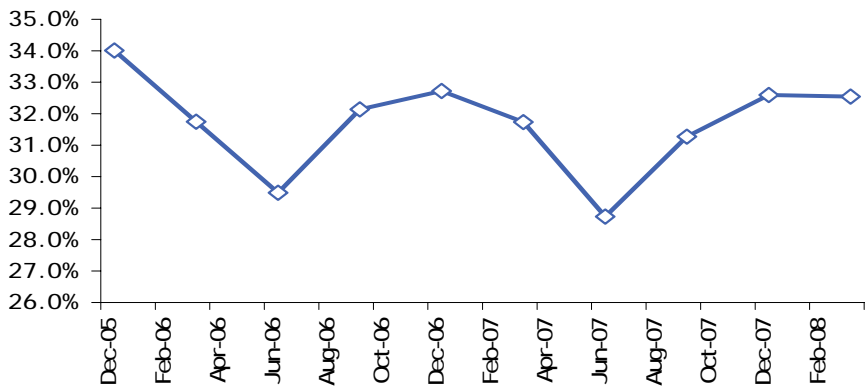
Highlights

Revenue grew 6.3% QoQ...



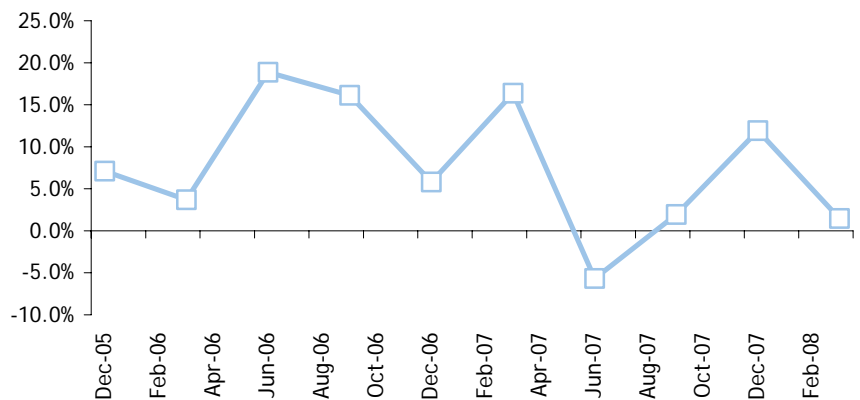
Source: Company Data, PL Research

But operating margin was flat (95bps decline QoQ)...



Source: Company Data, PL Research

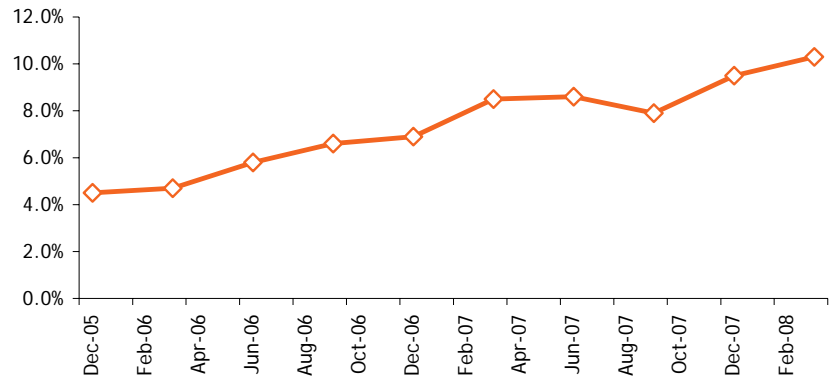
While PAT grew by a modest 1.5%



Source: Company Data, PL Research

Areas of concern

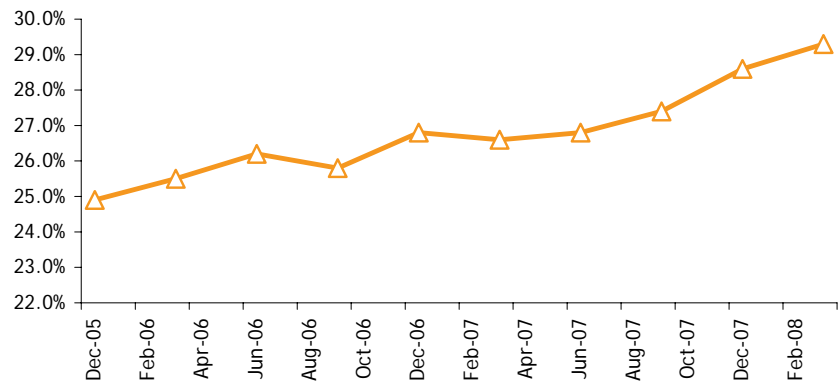
Contribution from top client increased, breaching 10% revenue...



Source: Company Data, PL Research

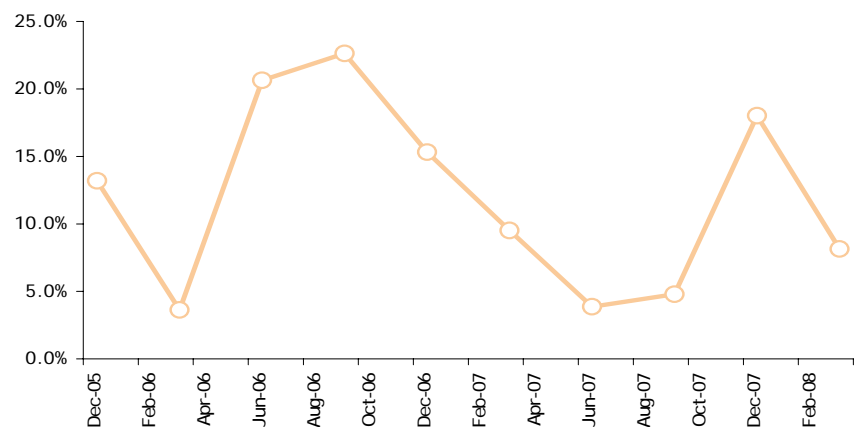
On the positive side

Contribution from Europe continued to witness robust growth...



Source: Company Data, PL Research

BPO segment continued to grow above company average (8% QoQ)



Source: Company Data, PL Research



Key operating metrics

	Q4FY08	Q3FY08	QoQ gr. (%)	Q4FY07	YoY gr. (%)
<i>Fixed price (% of revenue)</i>	33.2	32.8	0.4	25.9	7.3
<i>Offshore (% of revenue)</i>	52.5	52.2	0.3	50.2	2.3
<i>Europe (% of revenue)</i>	29.3	28.6	0.7	26.6	2.7
\$1m customers (no.)	310	305	1.6	275	12.7
Total manpower					
Billable	79,494	75,345	5.5	61,917	28.0
Banking product	2,053	2,053	-	2,053	-
Trainees	3,466	5,613	(38.2)	4,186	(17.0)
Sales & support	6,174	5,590	10.4	4,085	51.0

Q4FY08 result update

(Rs m)

Y/e March	Q4FY08	Q3FY08	QoQ (%)	Q4FY07	FY08	FY07	YoY (%)
Net sales	45,420	42,710	6.3	37,720	166,920	138,930	20.1
Total expenses	30,640	28,790	6.4	25,750	114,540	95,020	20.5
Operating profits / EBITDA	14,780	13,920	6.2	11,970	52,380	43,910	19.3
Depreciation	1,570	1,530	2.6	1,450	5,980	5,140	16.3
EBIT	13,210	12,390	6.6	10,520	46,400	38,770	19.7
Other income	1,390	1,580	(12.0)	1,200	7,040	3,700	
PBT	14,600	13,970	4.5	11,720	53,440	42,470	25.8
Tax	2,110	1,660	27.1	270	6,850	3,860	77.5
<i>Tax rate (%)</i>	14.5	11.9		2.3	12.8	9.1	
PAT before extra-ordinaries	12,490	12,310	1.5	11,450	46,590	38,610	20.7
Extra-ordinaries			10	(50.0)			10
PAT after extra-ordinaries	12,490	12,310	1.5	11,440	46,590	38,560	20.8
Key ratios							
<i>GPM (%)</i>	45.4	45.6	(0.21)	46.4	44.8	46.3	(1.5)
<i>OPM (%)</i>	32.5	32.6	(0.1)	31.7	31.4	31.6	(0.2)
<i>NPM (%)</i>	27.5	28.8	(1.3)	30.3	27.9	27.8	0.2
EPS (Rs.)	22.1	21.8	1.5	20.2	82.4	68.2	20.8
Adj. EPS before extras (Rs.)	22.1	21.8	1.5	20.3	82.4	68.3	20.7



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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