

## Industry Flash

29 June 2007 | 6 pages

# Indian IT Services

## Accenture Q3FY07 Results – Takeaways for Indian IT Services

- **Record quarter supports our demand thesis** — Accenture reported 15% yoy increase in revenues (9% in local currency). Order booking was \$6.2bn (up from \$5.1bn qoq) with consulting witnessing record booking of \$3.5bn. Confidence on demand was highlighted by the fact that management indicated 9-12% local currency revenue growth for FY08 ahead of formal guidance at the end of Q4.
- **BFSI witnessed good growth** — BFSI witnessed healthy growth of 12% (in local currency) with management highlighting strong growth in the capital markets segment. There have been concerns on BFSI growth for Indian companies in the recent past – data points continue to suggest strong demand.
- **Europe and Asia Pacific growing faster** — Europe and Asia Pacific grew faster at 8% and 37% yoy (local currency terms), while US growth was relatively muted at 6% yoy. This is similar to what Indian companies have been reporting – Europe continues to be the key driver of growth.
- **Some important comments from the call** — (1) Global ERP a strong driver of growth for System Integration; (2) Indian companies expanding in the ERP area; (3) Headcount of 30,000+ in India – target of 35,000 by August 2007; and (4) Better pricing environment than has been seen for quite some time.
- **Buy Infosys; risk reward favorable** — With another positive data point on demand, we reiterate our positive view on Indian IT with Infosys (INFY.BO - Rs1,950.00; 1L) as our top pick. With currency related negatives largely priced in, we expect strong earnings growth from Q2 onwards. Infosys is our top pick in the large-cap space.

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**Surendra Goyal, CFA<sup>1</sup>**  
+91-22-6631-9870  
surendra.goyal@citi.com

**Hitesh Shah<sup>1</sup>**  
+91-22-6631-9872  
hitesh.b.shah@citi.com

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See Appendix A-1 for Analyst Certification and important disclosures.

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## Infosys Technologies

### Valuation

Our target price of Rs2,440 is based on 25x FY09E EPS. This is close to the midpoint of the last one-year trading band of 20-28x 1-year forward earnings and factors in some deceleration in growth. We are now forecasting 19% earnings growth (on a high base of FY07) with some upside potential from pricing improvement and/or rupee depreciation. This is also supported by comparing it with global peers and the broader Indian market. The 25x multiple was also derived from a P/E band analysis of Infosys' trading pattern. During slowdowns in tech and offshore IT services, Infosys has traded at an average one-year rolling P/E of 25.1x with a low of 13x. Our estimates continue to assume a certain P/E premium to the market; this is justified, in our view, given the strong FCF, ROIC and growth rates for Infosys vs. the overall market. We believe P/E remains the most appropriate valuation measure given Infosys' profitable record and high earnings visibility.

### Risks

We rate Infosys shares as Low Risk, which is consistent with our quantitative risk-rating system that tracks historical share price volatility. The key downside risks to the shares reaching our target price include: (1) any significant appreciation of the rupee against the US dollar/euro/pound; (2) pressure on billing rates (as Infosys continues to enjoy a 10-15% premium in its billing rates); (3) a sharp slowdown in the US economy; and (4) limited H1B visa quotas.

## Appendix A-1

### Analyst Certification

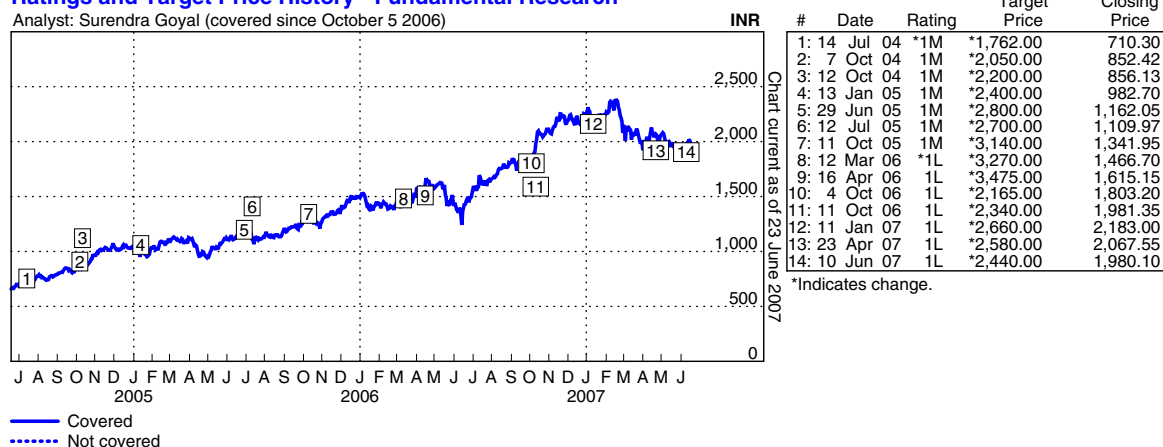
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#### Ratings and Target Price History - Fundamental Research

Analyst: Surendra Goyal (covered since October 5 2006)



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