Infinite Computers Solutions (India) Ltd. Buy

BP WEALTH
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IT Services | Initiating Coverage — **16th March 2011**

Well Poised for future revenue and earnings growth, Valuations attractive

Company Overview

Infinite Computers Solutions (India) Ltd is a global service provider of Infrastructure Management Services (IMS), Intellectual Property (IP) based Leveraged Solutions, and Application Development & Maintenance (ADM) services, primarily focused on few large clients across Telecom, Media, Technology, Manufacturing, Energy & Utilities and Healthcare verticals.

Investment Rationale

Strong Fundamentals and differentiated business model

Infinite revenues has grown at a healthy 3 year CAGR of 24.1% to Rs 6.6 bn in FY10, margins expanded 1,293 bps (FY07-10) to 17.3% and profits grew at a 3 year CAGR of 102.6% to Rs 840 mn in FY10. The company has been able to maintain long term relationship with its top clients and have competed successfully against most Tier-I players due to adoption of aggressive pricing and flexible business engagement terms. In view of existing relationship with top clients, winning of new large deals involving different engagement models, we expect the top line to grow at a healthy CAGR of 26.5% for FY10-13E. The company has been transforming itself from a onsite player to a typical offshore one along with the adoption of new non-linear pricing models, which helped the company to expand its margins along with maintaining its healthy top line growth rate. Going forward, we expect further rise in off shoring activity, adoption of non-linear pricing mechanism to expand EBITDA margins and increase profitability. We expect the EBITDA and PAT to grow at a CAGR of 29.8% and 30.3% respectively for FY10-13E.

Long-term and stable relationship with large Marquee clients to drive top-line growth

Infinite strategy to focus on few large clients have paid off well as it has been able to acquire, continue and expand business with large clients such as Verizon, IBM, Fujitsu, Tellabs, Motorola and Affiliated Computer Services (ACS). Verizon has been the top revenue contributing client since the last ten years and has a current run rate of ~US$ 40 mn (~20% of revenues) down from ~40% in FY10. We expect Infinite strong ability to service large clients effectively will boost top line and also provide strong references for new client acquisitions (e.g. Motorola which is a client of Verizon).

Recent deal wins provide optimistic revenue outlook, further margin expansion possible

Infinite recent deal wins with clients such as Motorola, iyogi, ACS and Govt of Utharakhand provide optimistic revenue outlook for the future. Moreover these deals are non linear engagements (Revenue Sharing and Pay as per use) which typically have higher margins than T&M, thus boosting margins as well. The company have spiced up higher margin RIM business by winning Fujitsu deal in FY09 and iYogi in Q1FY11. The 4 year Fujitsu deal involves assured off take with 60% guarantee and 40% variable payout while iYogi is expected to contribute ~US$10 mn in FY12E. Motorola deal is expected to contribute ~US$ 40 mn in FY12E as revenue share contribution for infinite becomes 70% for 2nd to 5th year of operation with around 45% EBITDA which will boost margins.

Outlook and Valuation

In view of company's ability to maintain long term relationships with large marquee clients, new deals wins providing robust revenue visibility along with higher margins, shift to non linear pricing models and efficient management we expect the company revenue and earnings to grow at 26.1% and 34.7% to Rs 11.1 bn and Rs 1.5 bn respectively in FY12E. The stock currently trades at a P/E of 4.7x and 3.7x FY12E and FY13E earnings which we think is at a steep discount to its peers considering its high growth rate and healthy return ratios. We initiate the company with a "**BUY**" rating and a DCF based target price of Rs 249 an upside of 58.6% from current levels. At this fair value the stock trades at a P/E of 7.5x and 5.9x FY12E and FY13E estimates.

Key Financials

YE March (Rs. mn)	FY08	FY09	FY10	FY11E	FY12E	FY13E
Net Sales	**3,404**	**4,899**	**6,643**	**8,838**	**11,149**	**13,461**
Sales Growth (Y-o-Y) %	*(2.1%)*	*43.9%*	*35.6%*	*33.0%*	*26.1%*	*20.7%*
EBIDTA	**249**	**583**	**1,147**	**1,481**	**1,976**	**2,509**
EBIDTA Growth (Y-o-Y) %	7.3%	11.9%	17.3%	16.8%	17.7%	18.6%
Net Profit	**171**	**457**	**840**	**1,080**	**1,455**	**1,859**
Net Profit Growth (Y-o-Y) %	*69.3%*	*167.5%*	*83.7%*	*28.6%*	*34.7%*	*27.8%*
Diluted EPS	**4.5**	**12.0**	**21.4**	**24.8**	**33.1**	**42.3**
Diluted EPS Growth (Y-o-Y) %	*69.3%*	*166.1%*	*78.9%*	*15.8%*	*33.4%*	*27.8%*
Key Ratios						
EBITDA Margin %	**7.3%**	**11.9%**	**17.3%**	**16.8%**	**17.7%**	**18.6%**
NPM (%)	5.0%	9.3%	12.6%	12.2%	13.0%	13.8%
RoE (%)	**16.5%**	**34.6%**	**35.1%**	**28.6%**	**28.7%**	**27.6%**
RoCE (%)	15.9%	30.6%	31.0%	25.5%	26.4%	26.1%
Book Value Per share (Rs.)	**29.4**	**39.9**	**83.3**	**98.9**	**132.0**	**174.3**
Valuation Ratios						
P/E (x)				**6.3x**	**4.7x**	**3.7x**
EV/EBITDA				4.3x	2.8x	1.6x

Source: Company Reports , BP Equities Research

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook — **Bullish**

Stock

CMP	Rs 157
Target Price	Rs 249
BSE code	533154
NSE Symbol	Infinite
Bloomberg	ICSL.IN
Reuters	INFI.BO

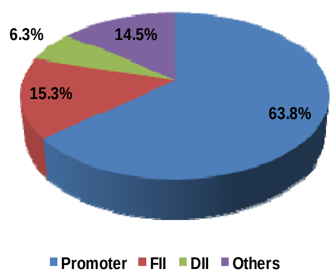
Key Data

Nifty	5449.7
52WeekH/L(Rs)	222.7/135.1
O/s Shares (mn)	44.0
Market Cap (Rs bn)	6.9
Face Value (Rs)	Rs 10

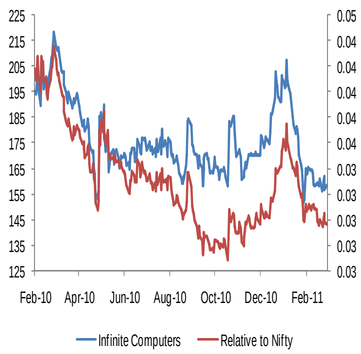
Average volume

3 months	51,469
6 months	55,410
1 year	176,407

Share Holding Pattern (%)



Relative Price Chart



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Investment Rationale

Strong long term relationship with large clients to drive growth further

Infinite has been successful in acquiring and retaining large clients like Verizon, IBM, Fujitsu, Tellabs, Motorola and ACS

Infinite strategy has always been to concentrate primarily on few larger clients (primarily fortune 500) and serve them well. Since inception, Infinite has been successful in acquiring and retaining large clients like Verizon, IBM, Fujitsu, Tellabs, Motorola and ACS. Despite maintaining strong long term relationship with its top clients it has been able to grow revenues consistently from them and has been able to maintain a yearly revenue run rate of around US$10-20 mn. Infinite top 5 client contribute around 80% of its total revenues whereas it stands at ~30-40% for its peers. However this client concentration has not hampered Infinite growth and it has been able to maintain a health revenue CAGR growth of 24.1% during FY07-10 which includes the peak recession period. We expect Infinite excellent client mining capability and ability to maintain strong relationship with clients to help maintain its strong revenue growth rate in the coming years.

Infinite top 5 client contribute around 80% of its total revenues whereas it stands at ~30 -40% for its peers

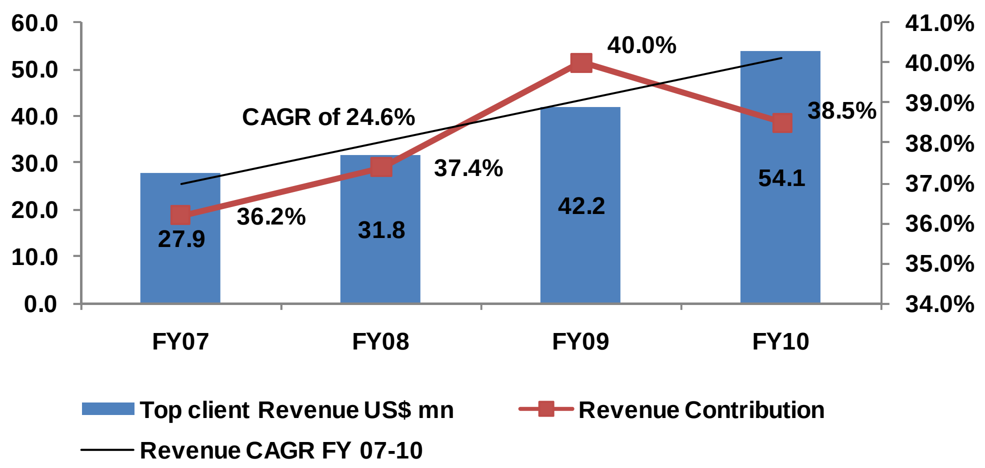
Infinite long term relationship can be attributed to its differentiated services offerings as follows.

Infinite has the strategy to focus more on onsite work during the initial years of association with the clients and gradually move to offshore work as the client becomes old. This can be attributed to the fact that the onsite revenue contribution has declined from 71.9% in FY09 to 66.2% in FY10.

The company has an average onsite billing rate of US$ 50-65/hour which is around 20-25% discount to other peers thus it helps the company to be more competitive.

It offers huge discount in offshore billing rate which as high as 40% as compared to its peers which makes its services more attractive and more cost efficient for the client. The company charges around US$ 15-20/ hour for offshore billing.

Revenues from Top Clients has grown consistently



Source: Company Reports BP Equities Research

Differentiated Business model of engaging into higher margin -- Non linear pricing models or new engagement models (NEMs)

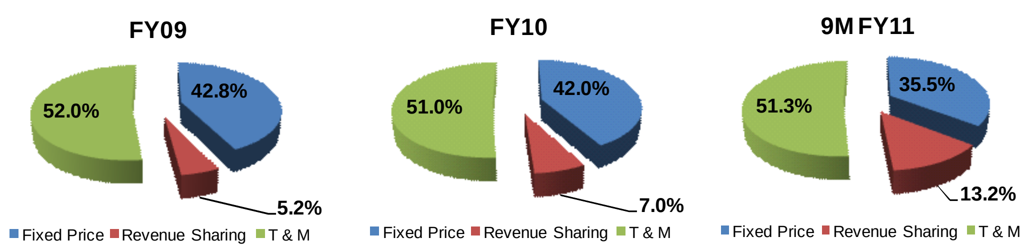
Shift to higher margin -- Non linear pricing models or new engagement models (NEMs) to boost margins and help win more contracts for Infinite

Infinite engages with its clients using innovative risk-reward, revenue-sharing models, which allows its customers to better align their R&D spend, extend flexible multi-vendor product portfolios to their end clients and reduce their risks. The strategy also allows Infinite to increase its value offering to its customers, who, in turn, benefit in the form of a more long term, sustainable and profitable business model. The recent deal wins such as Motorola, iyogi, APDRP are examples of such deal and revenues from these engagements will start pouring in from end of FY11E and FY12E. The Revenue Sharing model accounted for 7% of the company's revenue, while the traditional T&M and Fixed price model contributed 51% and 42% to its total revenue in FY10. The contribution of revenue sharing model accounted to 13.2% of revenues for 9M FY11 due to the contribution of Motorola contract.

The company expects to derive around 33% from T&M, revenue share and fixed bid each by the end of FY14 which we believe will help the company expand its margins while maintaining topline growth. The nonlinear engagement model typically operate at around 40% margins, hence has become the area of interest of all major IT companies. IT biggies such as Infosys and TCS are also aggressively planning to increase their revenue from new engagement models, like profit sharing, revenue sharing and usage based pricing. TCS has recently launched a cloud computing initiative involving nonlinear pricing model and is targeting $1 bn revenues in the next few years. Infosys targets around 8% of its revenues from new engagement models (NEM's) in the next few years.

Company's target to derive 33% from T&M, revenue share and fixed bid each by the end of FY14

Revenues from different engagement models



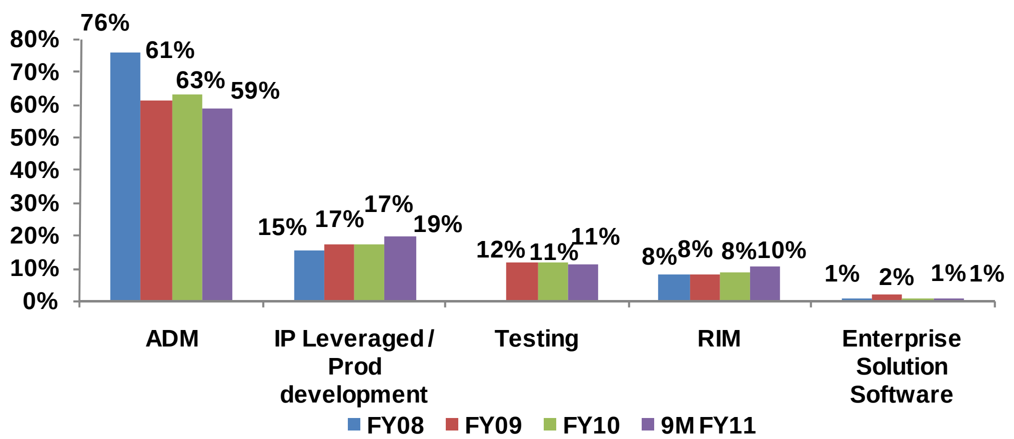
Source: Company Reports BP Equities Research

Gradual shift towards higher margin services

The company follows a strategy of starting a relationship with a new client by offering lower margins ADM services, slowly build the relationship with clients then gradually moved toward higher margins non linear pricing models offering services like IP-based solutions, testing services and RIM services. This has worked really well for Infinite and it has retained and grown relationship with its top client since the last many years. Earlier Infinite was heavily focused on ADM services for its large clients but now has been gradually shifting to other services such as IP leverage services, Remote infrastructure management (RIM) and Enterprise solution software which usually have higher margins. The contribution of ADM declined from 76% in FY08 to 58.9% for 9M FY11 while for IP leverage and RIM increased from 15.0% and 11.6% in FY08 to 19.5% and 11.3% in 9M FY11 respectively. We expect the company will continue focusing on non ADM services more and contribution of non ADM services to increase further going further hence will provide boost to margins.

Increased focus on IP Leverage and Remote Infrastructure Management (RIM) services after focusing on ADM services.

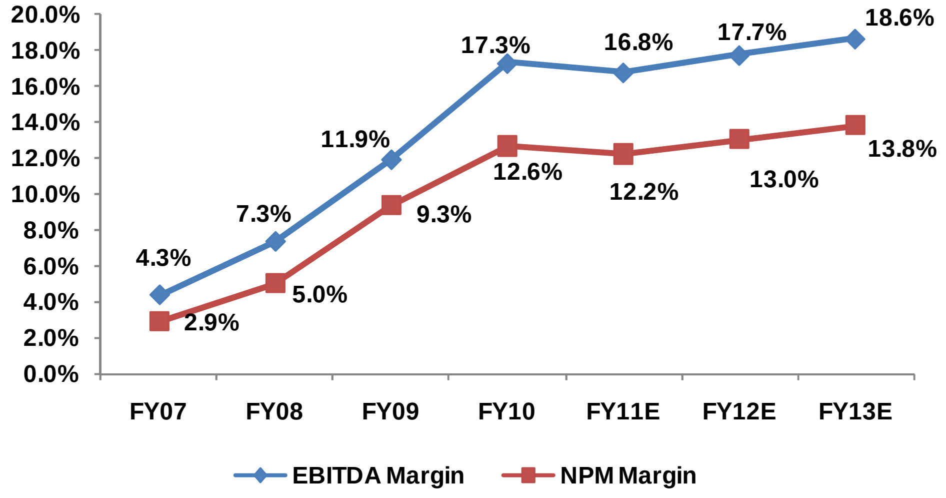
Revenues from different service lines



Source: Company Reports BP Equities Research

Robust margins performance-- keeping growth intact

EBITDA and NPM Margins



Source: Company Reports BP Equities Research

Moving more work Offshore, increasing non ADM business, engaging into Nonlinear pricing models were key Margin boosters for the company.

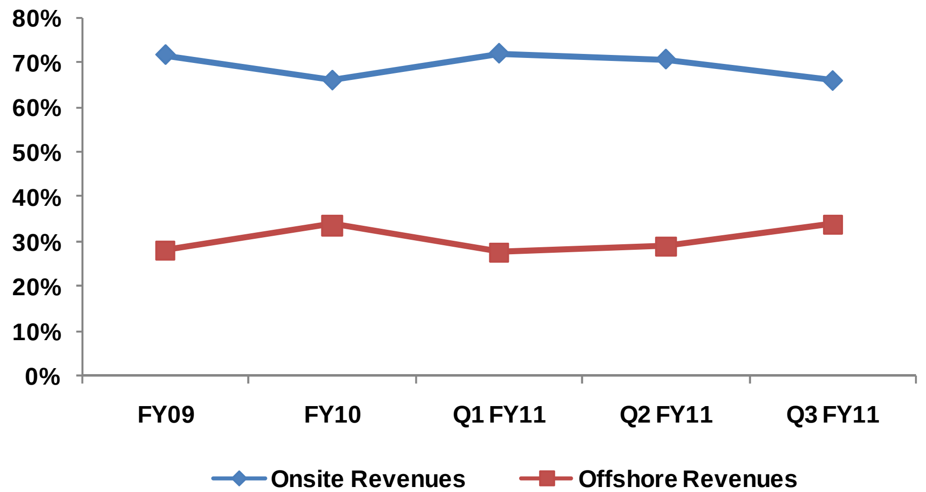
Margins under pressure in FY11E due to appreciating rupee, increase in onsite employee cost

Infinite has managed its margins pretty well and has consistently expanded since FY07. The margins earlier were lower primarily due to focus on lower margins ADM business, higher onsite focus and lower billing rates as compared to its peers. The company has done well in expanding its margins, expanded it from 4.3% in FY07 to 17.3% in FY10. The massive expansion in margins were primarily due to continued efforts to move work offshore and diversify revenues with increased share of high-margin non ADM services. Contribution from ADM services reduced from 77% in FY08 to 64% in FY10. Also, the onsite revenue share reduced from 81% in FY08 to 66% in FY10 thus boosting margins. Margin performance in FY11E is expected to be under a bit pressure and decline 52 bps to 16.8% due to appreciating rupee, increase in onsite employee cost due to transition of Motorola employees to Infinite and lower employee utilization in the RIM segment.

Sufficient Margins Levers present to expand Margins in FY12E

More offshore shift, higher Utilization, integration of Motorola deal and shift to NEM's to boost margins in FY12E

We expect margins to stabilize in coming years and we expect it to expand by 97 and 92 bps in FY12E and FY13E to 17.7% and 18.6% respectively. The expansion in FY12E and FY13E will primarily be driven by higher Utilization rates, shifting work offshore, and higher proportion of revenues from higher margin revenue sharing IP leverage and fixed price pricing models.



The company onsite revenue proportion in Q3 stood at 66.1% as compared to 72% in FY09, which we expect to decline further and will provide boost to margins in FY12E. The onsite revenue proportion increased in H1 FY11 to 71.6% as compared to 66% in FY10 primarily due to ramp-ups in Motorola deal though we expect it to decline as the company starts shifting work off-shore.

Old Client References helped win new deals

Infinite has effectively used its old client's references to win new clients. In the past four years, it has acquired clients like ACS, Fujitsu, Tellabs and Motorola through old client's references like Verizon. It has effectively demonstrated its ability to leverage on its service delivery capabilities and client references to achieve its goal of acquiring large clients involving different engagement pricing models. We expect the company to further leverage its capability of mining existing client's contacts to win new deals. For example, Existing clients like ACS, which has been acquired by Xerox, and Motorola, which has sold its network solutions business to Nokia Siemens Networks, can provide access to even larger client accounts involving different revenue model.

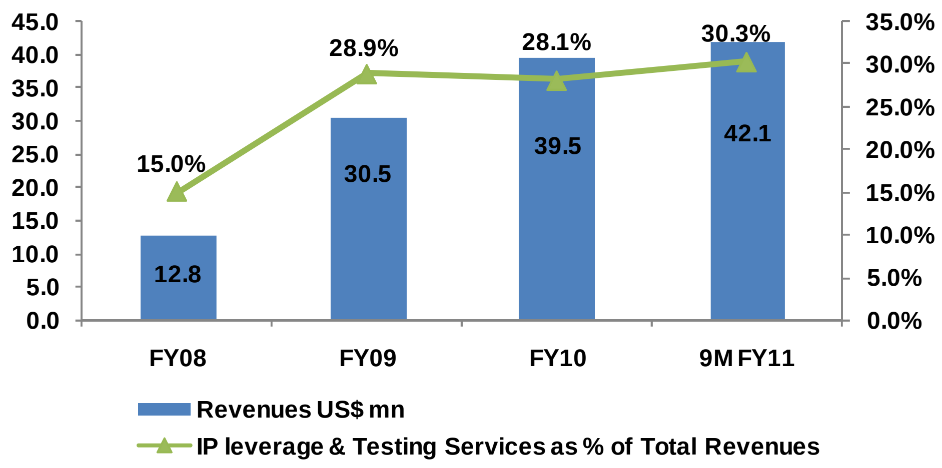
Old clients references helps win new clients. Acquired clients like ACS, Fujitsu, Tellabs and Motorola through old client's references like Verizon.

IP-leverage and Testing based solutions to drive growth

Infinite successfully leveraged its experience in the Telecom vertical and started provided IP leverage services. As a strategy for strengthening its IP-based solutions capabilities it acquired Comnet International in August 2007. The acquisition provided Infinite access to product engineering and lifecycle management related IP-based solutions and helped the company to add client accounts like Alcatel-Lucent and Tellabs (both in which were in the telecom sector). As a result the revenue from IP leverage and testing services shoot up from US$ 12.8mn in FY08 to US$ 30.5 mn in FY09 up 139.0% Y-o-Y. We believe the recent win of the Motorola deal in the IP leverage space will be a revenue booster for the company and revenues will start flowing in completely in FY12E. Interestingly the 9M FY11 revenues at US$ 42.5 mn has well surpassed the FY10 revenues of US$ 39.5 mn primarily due to the start of inflow from the Motorola deal in Q3 FY11.We believe with strong client references in the bag, Infinite plans to achieve the next level of growth through higher-end services like IP-based solutions and testing services.

IP– leverage service line next growth driver. 9M FY11 revenues at US$ 42.5 mn has well surpassed the FY10 revenues of US$ 39.5 mn primarily due to the start of inflow from the Motorola deal in Q3 FY11. Motorola to fully contribute in FY12E

IP Leverage Services revenues and Revenue contribution



Source: Company Reports BP Equities Research

Motorola deal will boost top line in FY12E

Infinite won the 10 year Motorola deal in Q4 FY10 involving the revenue sharing model. The deal involved operating and upgrading Motorola's messaging platform in the USA for a period of 10 years starting from CY10. The deal win can be attributed to the company's strong and a decade long relationship with Verizon, which we believe is the core strength of the company and will help it win more big deals in future.

Motorola deal to fully contribute in FY12E

The interesting part about the deal is the terms of engagement which involves the revenue sharing model. Infinite will get a share of revenues from the overall revenue generated through the SMS and MMS sent through the Motorola platform. The Motorola platform is used for routing the messages (SMS and MMS) send through the Verizon and US cellular network. The terms of engagement is shown in the table below.

Revenue expected ~ US$ 40mn for FY12E

Revenue Sharing terms with Motorola

Revenue Sharing as % of Total revenues	Infinite Computers	Motorola
1st Year of Operation	30%	70%
2nd - 5th Year of Operation	70%	30%
6th to 10th Year of Operation	60%	40%

In FY11E Infinite will get 30% share of the total SMS revenues generated and in FY12E the contribution will climb up to 70% which will be a big revenue booster for the company. In FY11E the company expects the Motorola deal to contribute ~US$20mn and double to around US$ 40mn in FY12E. This revenue sharing contract has EBITDA margin of ~45%, which is much higher than Infinite's consolidated margin of 16.8% in FY10 though the initial cost, R&D are very high initially which the company will amortize for the next five years. In fact due to the higher margin nature of the contract even after factoring in the capitalization, the profitability from the Motorola contract would be higher and will boost revenues, margins and profits.

Deal to have EBITDA margins of around 40-45%.

The potential Market size - Verizon deal with Apple a key trigger

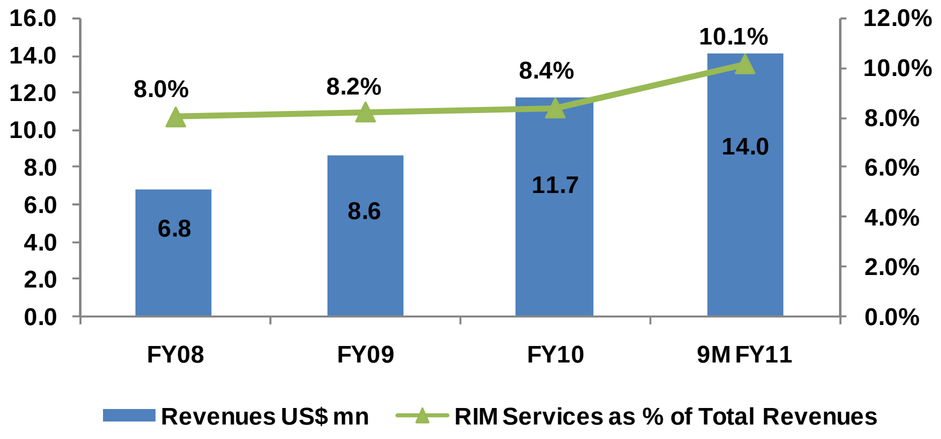
Verizon is the largest mobile data services operator in terms of mobile data revenues, both globally and in the USA. Verizon has recently tied up with Apple to sell Iphone 4 and we believe the tie-up will boost the SMS and MMS traffic for Verizon as Apple Iphone is highly popular in USA and have large multimedia capabilities. The Motorola's messaging platform which is now being managed by Infinite is used to route the messaging traffic of Verizon and US Cellular. This is a big revenue booster for the company as the surge in messaging traffic will directly add to the top-line and translate to bottom line.

Apple tie-up with Verizon to boost overall SMS and MMS volumes , thus boosting top line.

Remote Infrastructure Management (RIM) to Spice up Growth

Remote Infrastructure management (RIM) is a highly promising vertical and has huge potentials going forward. Enterprise cut cost by outsourcing their IT infrastructure to Infrastructure Management Service (IMS) providers like iYogi and Fujistu and these players cut their cost by outsourcing these projects to offshore locations players like Infinite i.e. through RIM. According to Nasscom, only 7% (Rs 336 bn in 2009) of the addressable RIM market was catered to by offshore locations like India. It expects the global RIM market to grow at a five-year CAGR of 32% to Rs 1,334 bn in 2013 and expects the share of Indian IMS vendors to be between 50% and 55%.

RIM offers huge opportunities for vendors like Infinite.



RIM revenues to increase around four folds to ~US$40mn in FY12E from around US$10mn in FY10.

Source: Company Reports BP Equities Research

Infinite is looking forward to derive growth from this service vertical and we expect that it will be one of the key growth drivers for Infinite going forward. The company has won three important deal in this service vertical in the last two years mainly, iyogi, Fujistu and R-APDRP (Restructured Accelerated Power Development and Reform Program from the state of Utharakhand). Company has around 700 employees working on all RIM project by the end of Q3FY11 and expects it to stabilize by the end of FY11 and will have around 1,000 employees working on all the project

The details of the deal are as follows:-

iYogi

Infinite has signed a 3 yr engagement with iYogi Inc in Q4 FY10 to provide L2 and L3 desktop management support to iYogi's customers across US, Canada, UK and Australia. The terms of engagement are primarily on T&M basis and the company expects to derive around $10mn revenues in FY12E. Higher utilization will be derived in FY12 which will boost both the revenues and EBITDA margin for the company.

iYogi expected to contribute around $10mn revenues in FY12E

Fujitsu

Infinite signed a 4 – year strategic partnership with Fujistu for Europe-based clients. The nature of the contract involves assured off take with 60% guarantee and 40% variable payout thus providing revenue visibility. The value of the contract is approx US$ 25 mn every year making it a total of $ 100 mn for 4 years. The most important part about the deal is the company's diversifying and winning deal in other geographies other than US.

Fujistu offers 60% assured offtake and to contribute around US$ 25mn yearly for four years

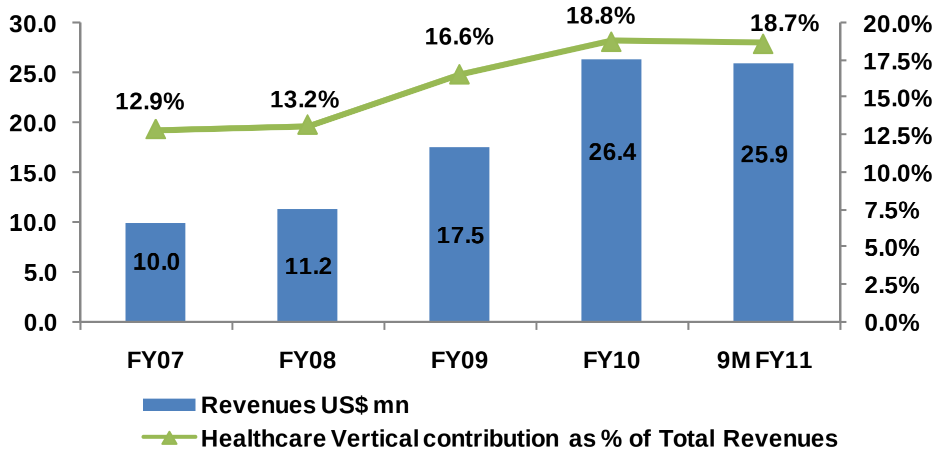
R-APDRP contract won from State of Utharakhand (Rs 1.25 bn contract)

Infinite won its first domestic project provided by the State of Utharakhand for Rs 1.25 bn which involves reducing transmission losses and the company will work primarily as a system integrator. This contract was provided primarily under the Restructured Accelerated Reforms Program (R-APDRP), an initiative driven by the Government of India in collaboration with State Governments to boost IT Infrastructure. The company has secured this contract amidst competition from large peers like TCS and HCL Technologies which appears very positive and pricing looks attractive

First win in India from government vertical despite huge competition from large peers.

The contract is primarily a hardware contract which usually has lower margins but the company is confident enough to derive at least 15% margins from it. Moreover, it believes that a successful execution of such a large engagement would serve as a good reference point for similar opportunities in the international market and domestic market both. The company has already bid for such contracts in other states and would continue to participate in upcoming contracts.

Healthcare Vertical looks promising ---- Exclusive partnership with ACS to create immense opportunities



Source: Company Reports BP Equities Research

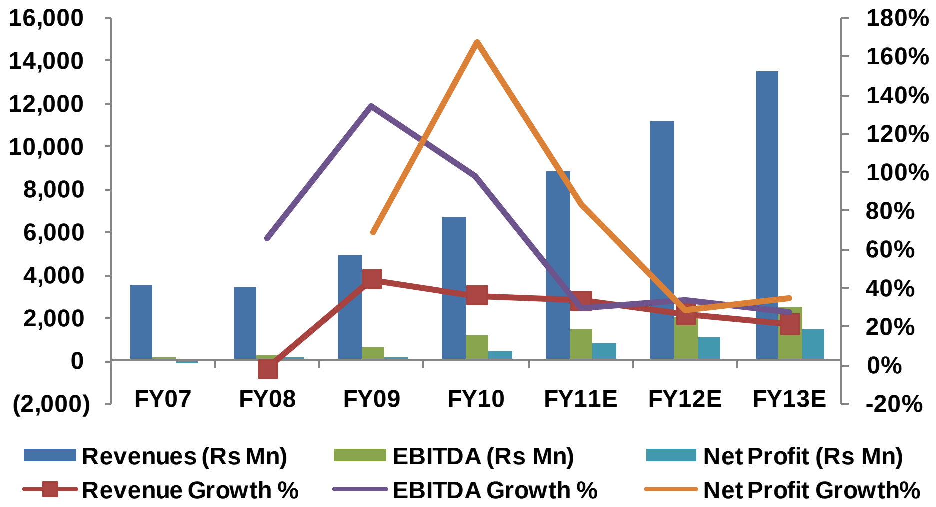
Healthcare is Infinite's second highest contributing vertical after Telecom, it contributed 18.8% of total revenues in FY10 and looks promising going forward with a lot of healthcare related regulatory changes in US. The US government is trying to reduce its Medical Loss ratio (Spending on Medical Bills/Premium earned) by outsourcing contracts for healthcare management hence has started outsourcing various healthcare related projects. ACS has won contracts with various states in US like Alaska, North Dakota, California, and New Hampshire for healthcare facilities. Infinite are exclusive partnership with Affiliated Computer Services, Inc (ACS) to provide various facilities like e-HR (electronic health records), and Pharmacy Benefits Management (PBM) etc hence opportunities are immense. The company expects ACS to provide around $12-13 mn revenues in FY12E and employee around 400 associates.

Regulatory reforms in US to boost healthcare spending in US and will benefit Infinite

Financial Outlook

Revenue, EBITDA and Net Profit expected to grow at a 3 year CAGR of 26.5%, 29.8% and 30.3% for FY10-13E

Revenue, EBIDTA and EPS and Growth for FY07-13E



Source: Company Reports BP Equities Research

Revenues to grow at a healthy CAGR of 26.5% for FY10-13E

Infinite revenues grew at a 3 year CAGR of 24.1% to Rs 6.6 bn in FY10 on account of increased revenues from top clients, acquisition of new clients and diversification into other service delivery models and verticals. We expect the company to post similar healthy growth rate and projected its revenue to grow at a 3 year CAGR of 26.5% over FY11-13E to Rs 13.4 bn.

EBITDA margins to to expand marginally by 137 bps (from FY10-13E) to 18.6% in FY13E

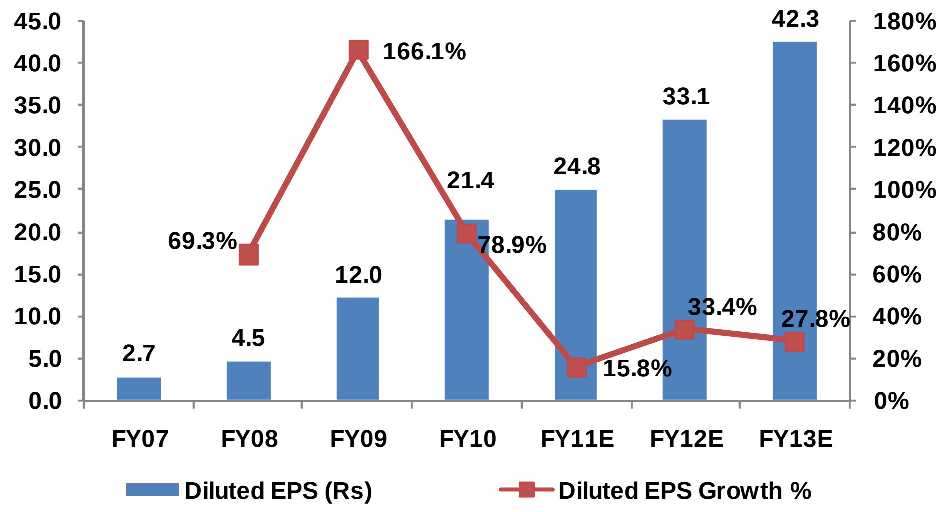
EBITDA too grew at a 3 year healthy CAGR of 96.7% to Rs 1.14 bn in FY10 on account of EBITDA margins expansion of ~1300 bps (from 4.3% in FY07 to 17.3% in FY10). Margins expansion was primarily due to shift to offshore services, rise in utilization rates, shift to higher margin services and engagement into non linear revenue models. We expect the company's EBITDA Margins to expand marginally by 137 bps (from FY10-13E) to 18.6% in FY13E. Margins will be slightly under pressure in FY11E registering a 52 bps Y-o-Y decline to 16.9% due to appreciating rupee, increase in onsite employee cost due to transition of Motorola employees to Infinite and lower employee utilization in the RIM segment.

Margins to be under pressure in FY11E due to higher onsite employees and rupee appreciation

Net Profit grew at a 3 year CAGR of 102.6% to Rs 1.1 bn in FY10. We expect Net profit to grow at a 3 year FY10-13E CAGR of 30.3% to Rs 1.85 bn driven by higher other income.

Diluted EPS to grow at a 3 year CAGR of 25.5% to Rs 42.3 in FY13E

Diluted EPS and EPS Growth

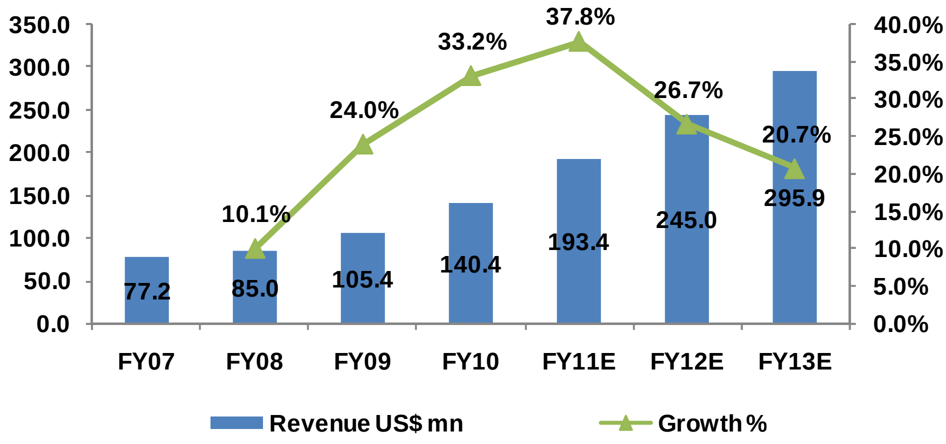


Diluted EPS to grow at a 3 year CAGR of 25.5% to Rs 42.3 in FY13E

Source: Company Reports BP Equities Research

Revenues in US$ terms to grow at a 3 year CAGR of 28.2% to Rs 296 mn in FY13E

Total revenues and Growth in US$ terms



Revenues in US$ terms to grow at a 3 year CAGR of 28.2% to Rs 296 mn in FY13E

Source: Company Reports BP Equities Research

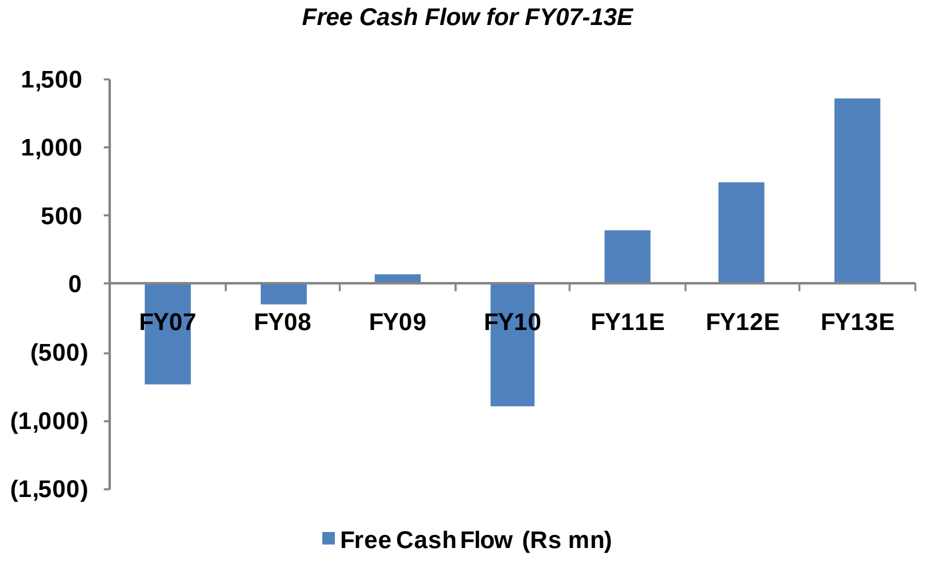
We expect revenue to grow at a modest 3 year CAGR of 28.2% to US$ 295.6 mn in FY13E. Revenues in FY11 E and FY12E are expected to grow at 37.8% and 26.7% to US$ 194 mn and 245 mn respectively aided by revenue flow from different deal wins like Motorola, iYogi, Fujistu and APDRP along with traditional revenues.

Free Cash Flow to improve going forward

Cash flow was under pressure to improve going forward

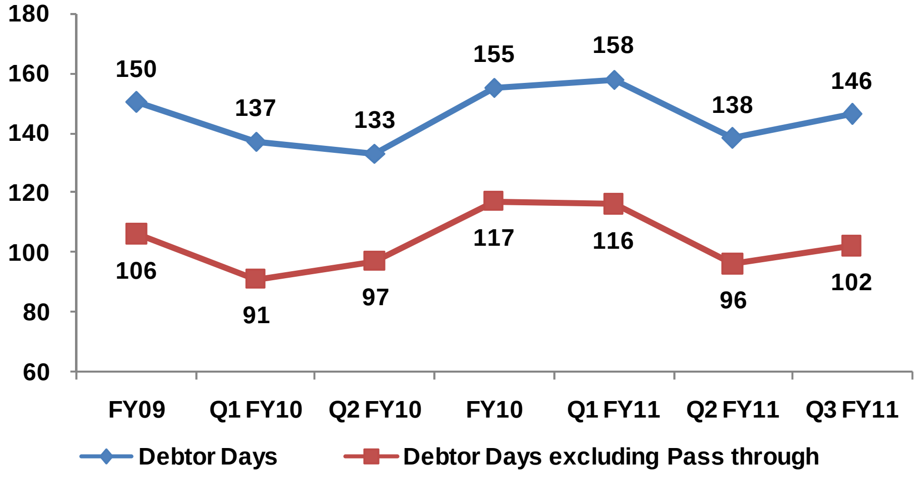
Infinite cash flow generation was not so impressive in the past however we expect it to improve going forward. The main reasons for negative cash flows were the company's acquisition of the Motorola platform in FY10 and acquisition of Comnet in FY08 which drained out cash from the system. We believe that its cash generation should improve going forward as the company's investments both on the Motorola platform as well as the iYogi deal will get completed by the end of

FY11E and the company will improve upon its DSO days thereafter which was artificially inflated due to pass through revenues serving Motorola clients.



Source: Company Reports BP Equities Research

Debtor Days Inflated due to pass through revenues



Higher debtor days inflated due to inclusion of pass through revenues though to decline going forward

Source: Company Reports BP Equities Research

Infinite's DSO days appear inflated on account of its relationship with IBM. IBM went through a vendor consolidation exercise and it had to remove some of its vendors but some part of the work was left which has to be completed. Motorola choose Infinite to route the work of its clients through them (i.e Infinite) hence apart from the services that Infinite provides to Motorola, it also manages relationships for other sub tier vendors and call it pass through revenues. The sub tier vendors route their billing and collections transactions through Infinite, thereby inflating the values for both debtors as well as creditors for the company.
Inflated DSO days along with high client concentration is a major area of concern. But as we can see that after removing the pass through revenues Infinite's DSO days are well within the Industry normal range of 90 days collection period. We believe that as the engagement of sub-tier vendors will get over the company's DSO days will be back to the normal range.

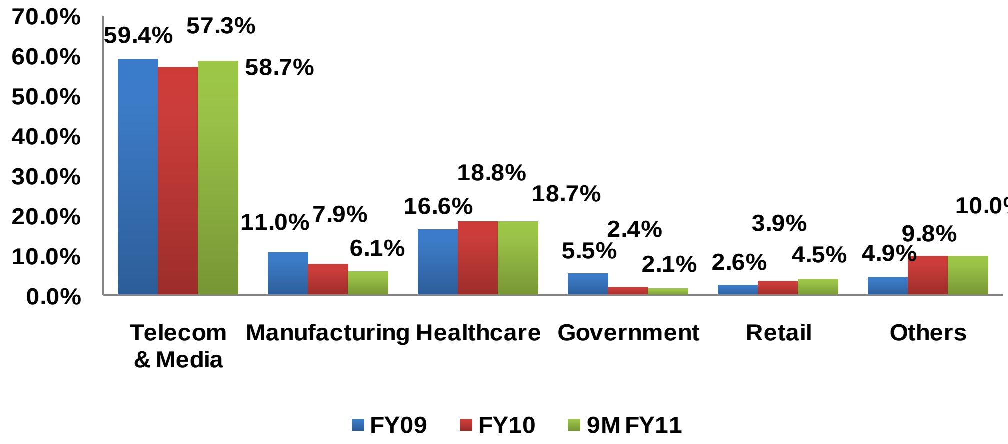
Company Description

Infinite Computer Solutions (India) Limited (ICS) (Incorporated in 2000) is a service provider of Application Management Services, Infrastructure Management Services (IMS); Intellectual Property (IP) leveraged solutions, focused primarily on the Telecom and Media vertical along with Manufacturing and Healthcare verticals. The company has a proven and has a successful track record of managing large, multi-year engagements with Global clients and has consistently and successfully demonstrated the ability to manage key client relationships with clients like Verizon, IBM, ACS, AOL and Fujitsu. Large deals with marquee client names like Motorola, ACS and iYogi etc lend strong revenue visibility for Infinite. The USA is Infinite's largest contributing geography with 87.9% of FY10 revenues from there followed by Europe (6% of total revenues), India (4.1%) and APAC (2.1%).

Infinite operates out of five delivery centers in India (including subsidiaries) – with two in Bangalore, one each in Chennai, Gurgaon and Hyderabad. The company's total headcount stands at 4,468 at the end of Q3 FY11.

Key Milestones	
1999-00	Infinite Computer Solutions (India) Private Limited was incorporated and acquired Verizon & IBM as clients
2000-01	The company started its US operations and Bangalore Development centre inaugurated
2002-03	Got ranked amongst Nasscom's Top 20 Indian IT Companies and acquired Neustar and GE as clients
2003-04	Received funding of US$ 6 mn from WhiteRock Investments (Mauritius) Limited and acquired AOL as client
2004-05	Started Operation in Malaysia & China and inaugurated Whitefield Campus
2005-06	Acquired Datagrid Services Pvt. Ltd, a Hyderabad based BPO company and renames it as Infinite BPO Private Limited
2006-07	Recognized as one of the Top 10 Global telecom outsourcing partners
2007-08	Acquired Comnet International a US based telecom Solutions Provider and also acquired Alcatel, Lucent, Tellabs, Oracle, ACS etc as clients
2008-09	Signed Fujitsu as a strategic client, setup GDC for Fijitsu
2009-10	Got listed on the BSE and the NSE through IPO of Rs 1.9 bn (Rs 0.9 bn through fresh issue of shares and balance through offer for sale)

Vertical wise Revenue Contribution



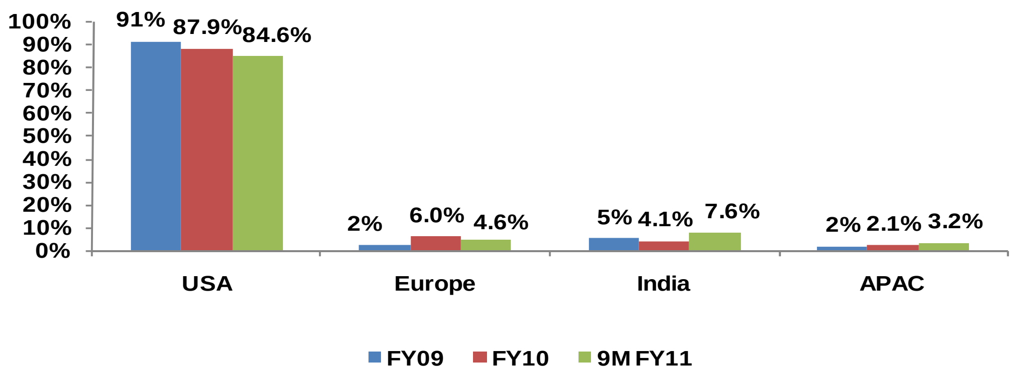
Telecom & Media major contributing vertical.

Source: Company Reports BP Equities Research

Infinite primarily focuses on the Telecom & Media industry, which is the company's highest revenue contributing vertical and contributed 57.3% of its total revenue in FY10. Healthcare, which is the company's second largest revenue contributor, contributed 18.8% of its total revenue in FY10 and has emerged as a key focus area. In FY10, the other verticals, such as Manufacturing, Government, Retail and Others contributed 7.9%, 2.4%, 3.9% and 9.8% respectively to the company's total revenue.

Immense opportunities in Healthcare vertical and ACS largest client in the vertical

Geographical distribution of revenues

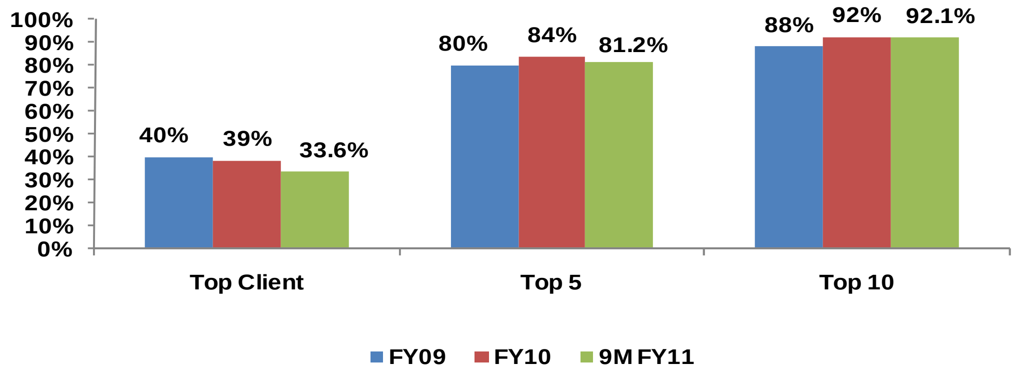


Source: Company Reports BP Equities Research

US has been the highest contributing vertical, though the company has started diversifying into other geographies

The USA is the largest market for Infinite, with a contribution of 87.9% in FY10, while Europe and India contributed 6.0% and 4.1% respectively. The company seems well positioned to be benefited from the economic recovery and rise in discretionary spending in the US.

Client wise revenue contribution

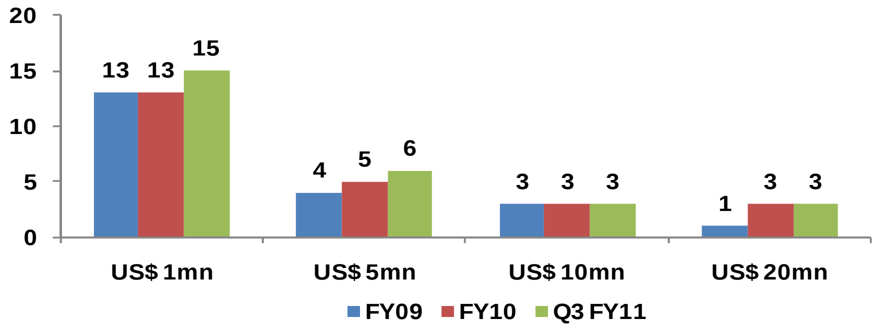


Source: Company Reports BP Equities Research

High revenue concentration due to large few clients, though top client concentration declining

Infinite has adopted the strategy of focusing on large clients, which has resulted in a higher revenue contribution from its Top clients and Top 5 clients. In FY10, the company's Top clients contributed 39%, while its Top 5 clients contributed 84% to its total revenue.

Client Distribution Metrics



Source: Company Reports BP Equities Research

3 clients in above US$20 mn bracket highest among peers.

As part of its strategy of focusing on large clients, ICS has 3 large clients contributing more than US$20mn annually, namely Verizon, IBM and Motorola.

Experienced and efficient Top Management

Management Profile		
Name	Designation	Brief Profile
Mr Sanjay Govil	Promoter and Non Executive Chairman	B.E Electrical Engg from Auburn University and Masters degree from Syracuse University. Has extensive work experience with companies like IBM and Verizon Communications.
Mr Upinder Zutshi	Managing Director and CEO	B.Tech Mechanical engg from BITS Pilani. Have two decades of experience in the IT industry and has been associated with Infinite for more than seven years. Mainly responsible for the company's instrumental growth and Infinite's ability to serve large blue-chip clients. Prior to this Mr Zutshi has worked with companies like CMC and ESS in its US, European and Middle East operations.
Mr Neeraj Tiwari	President and COO, head Business Development	Mr Tiwari has been associated with the company for more than five years and has an overall experience of more than two decades Mr Tiwari worked for Hughes Network Systems (US) started Hughes Software Systems in Delhi. He also led Thuraya – the largest mobile communication project in the Middle East, worth US$1 bn. Mr Tiwari has largest mobile communication project in the Middle East, worth US$1 bn. Mr Tiwari has been instrumental in driving the IP-based solutions business for Infinite and has been the key personnel associated with the Motorola deal
Mr Ajay Kumar Agarwal	Independent Director	BE (Mechanical) & PGDM professional, with over two decades of corporate experience. Mr Agarwal provides astute guidance on the Company's corporate planning and management decisions.

Key Risks

High Client Concentration

Infinite derives around 84% and 39% of revenues from Top 5 and Top client respectively, which is considered as the biggest risk the company suffers. Higher dependence on a fewer number of clients could impact Infinite's financial performance adversely in case any large client decides to shift business elsewhere. We are aware of the above risk, though the point to note is that Infinite has not only survived several rounds of vendor consolidation exercises but also grown its business with marquee client names like Verizon, IBM and ACS.

Cross Currency volatility – appreciation in INR

As for all other IT services vendors, Infinite too is exposed to the volatility of exchange rates. We have assumed USD/INR exchange rate of Rs 45.5 for FY12and 13E. Any further appreciation of the Indian rupee would impact the EBITDA margin. However as Infinite have around 30% of employees outside India which could ease the impact of rupee appreciation to a little extent.

Higher dependence on a single geography (USA) for maximum revenues

Infinite derives around 88% of revenues from USA which we suppose is pretty high for a company of this size. Any kind of economic slowdown, anti-outsourcing rules, and protectionism measures in the USA could impact revenues to a higher extent. However it's interesting to note that the company's revenues did not got impacted by the current economic slowdown IT budgets in the USA. Even amidst the slowdown, Infinite's revenues from the USA grew at a two-year CAGR of 43% during FY08-FY10. This was primarily because of no budget cuts from its key few clients.

High debtor days – an area of concern

Infinite debtor's days stood at 121 days in FY10 which we consider pretty high considering the industry average of 80-90 days collection period. Dependence on large clients and high client concentration has prompted Infinite to offer high flexibility on payment terms to its clients resulting in higher debtor days. We expect client concentration to continue in the near future. We expect the debtors days to drop in the coming years, then also it will remain high as compared to peers which is a higher risk for a company with higher client concentration and higher growth rate.

Valuation & Recommendation

In view of company's ability to maintain long term relationships with large marquee clients, new deals wins providing robust revenue visibility along with higher margins, shift to non linear pricing models and efficient management we expect the company revenue and earnings to grow at 26.1% Y-o-Y and 34.7% Y-o-Y to Rs 11.1 bn and Rs 1.5 bn in FY12E. For FY13E we estimate revenues and earnings to grow 20.7% Y-o-Y and 27.8% Y-o-Y to Rs 13.5 bn and Rs 1.9 bn Respectively. We have estimated EPS to grow at a 3 year CAGR of 25.5% to Rs 42.3 in FY13E. The stock currently trades at a P/E of 4.7x and 3.7x FY12E and FY13E earnings which we think is at a steep discount to its peers considering its high growth rate and healthy return ratios. We initiate the company with a "**BUY"** rating and a DCF based target price of Rs 249 an upside of 58.6% from current levels. At this fair value the stock trades at a P/E of 7.5x and 5.9x FY12E and FY13E estimates.

Key DCF assumptions

1. We have done DCF on FCF basis from FY11E to FY22E. We have considered a uniform growth rate of 15% from FY15-22E to reach our target price.
2. Cost of Equity and WACC both at 13.1%, considering negligible debt levels.
3. Terminal Growth rate taken at 3%.

Peer Comparison

Despite company's superior earnings growth (FY10-13E CAGR of 30.3% vs average of ~15% for mid-cap IT companies) and one of the highest RoE the stock's has been at trading at a huge ~50% discount to its peers. We believe that main reasons for the discount are primarily its high revenue concentration from few large clients, geographical revenue concentration and exposure to riskier revenue models. Going forward we believe that with the company's proven track record to manage large clients, ability to ramp-up operations effectively, traction in new deal won, higher revenue growth, diversification in revenue stream (from clients and geographies), and expansion in margins in the next few quarters will narrow down the discount considerably and the company will trade at valuations compared to its peers.

Comparative Analysis

Rs mn	Market Cap Rs bn	Sales		Growth %	EBITDA		Growth %	Net Profit		Growth %	EBITDA Margin %		EPS Rs		P/E		P/BV		EV/EBITDA		RoE	
		FY12E	FY13E		FY12E	FY13E		FY12E	FY13E		FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Infinite	6.9	11,149	13,461	20.7%	1,976	2,509	27.0%	1,455	1,859	27.8%	17.7%	18.6%	33.1	42.3	4.7	3.7	1.2	0.9	2.8	1.6	28.7%	27.6%
KPIT Cummins	13.8	12,610	15,281	21.2%	2,056	2,511	22.1%	1,198	1,593	33.0%	16.3%	16.4%	14.5	17.8	12.0	9.8	2.3	1.9	6.9	5.6	22.1%	23.0%
Infotech Enterprises	18.0	14,802	17,971	21.4%	2,487	3,095	24.5%	1,754	2,166	23.5%	16.8%	17.2%	15.7	19.3	10.2	8.3	1.5	1.3	5.9	4.7	15.4%	16.4%
Mindtree	15.3	18,097	21,236	17.3%	2,919	3,410	16.8%	1,811	2,119	17.0%	16.1%	16.1%	44.9	52.7	8.4	7.2	1.7	1.4	5.1	4.3	21.4%	20.5%
Patni	59.5	40,993	47,163	15.1%	7,589	8,544	12.6%	5,712	6,251	9.4%	18.5%	18.1%	42.1	45.3	10.7	10.0	1.4	1.3	7.8	7.0	14.5%	14.6%
Persistent Systems	15.1	9,607	11,768	22.5%	2,139	2,547	19.1%	1,418	1,711	20.6%	22.3%	21.6%	35.4	42.5	10.7	8.9	1.7	1.4	7.0	5.9	16.8%	17.4%
Hexaware	16.1	15,495	16,379	5.7%	1,977	2,046	3.5%	1,702	2,781	63.4%	12.8%	12.5%	5.6	6.0	9.8	9.2	1.3	1.2	6.0	5.8	13.8%	12.6%
Eclerx	18.7	4,436	5,705	28.6%	1,633	2,063	26.3%	1,497	1,695	13.2%	36.8%	36.2%	51.1	57.9	12.5	11.1	5.4	4.3	10.6	8.4	48.1%	42.8%
Tech Mahindra	92.9	54,215	61,688	13.8%	10,619	11,552	8.8%	8,050	8,997	11.8%	19.6%	18.7%	60.9	67.6	12.1	10.9	2.2	1.8	9.9	9.1	20.1%	18.5%
Polaris	18.3	18,332	21,360	16.5%	2,692	3,074	14.2%	2,127	2,456	15.5%	14.7%	14.4%	21.4	24.8	8.6	7.4	1.5	1.3	5.6	4.8	18.7%	18.8%
Rolta	22.6	20,358	23,150	13.7%	7,832	8,956	14.4%	3,393	3,729	9.9%	38.5%	38.7%	20.2	21.9	6.9	6.4	1.1	0.9	4.4	3.9	16.9%	17.1%

Source: BP Equities Research, Bloomberg Estimates except for Infinite

Income Statement

YE March (Rs. mn)	FY09	FY10	FY11E	FY12E	FY13E
Total Revenue	**4,899**	**6,643**	**8,838**	**11,149**	**13,461**
Growth %	**43.9%**	**35.6%**	**33.0%**	**26.1%**	**20.7%**
Less:					
Employees Remuneration & Benefits	2,433	3,210	5,814	7,222	8,597
Administrative & Other Expenses	1,883	2,286	1,543	1,951	2,356
Total Operating Expenditure	**4,316**	**5,496**	**7,357**	**9,173**	**10,952**
EBIDTA	**583**	**1,147**	**1,481**	**1,976**	**2,509**
Growth %	**133.5%**	**96.9%**	**29.1%**	**33.5%**	**27.0%**
Less: Depreciation	48	66	137	147	169
EBIT	**534**	**1,082**	**1,344**	**1,829**	**2,340**
Interest Paid	19	30	16	18	19
Non-operating Income	62	20	70	78	94
Profit Before tax	**578**	**1,071**	**1,385**	**1,889**	**2,415**
Tax	120	231	305	435	555
Net Profit	**457**	**840**	**1,080**	**1,455**	**1,859**
Growth %	**167.5%**	**83.7%**	**28.6%**	**34.7%**	**27.8%**
Adjusted Net Profit	**457**	**840**	**1,090**	**1,455**	**1,859**
Diluted EPS	**12.0**	**21.4**	**24.8**	**33.1**	**42.3**
Growth %	**166.1%**	**78.9%**	**15.8%**	**33.4%**	**27.8%**

Source: Company reports, BP Equities Research

Balance Sheet

YE March(Rs. mn)	FY09	FY10	FY11E	FY12E	FY13E
Liabilities					
Equity Capital	382	440	440	440	440
Reserves & Surplus	1,141	2,830	3,910	5,365	7,224
Equity	**1,523**	**3,270**	**4,350**	**5,804**	**7,664**
Preference Share Capital	0	0	0	0	0
Net Worth	**1,523**	**3,270**	**4,350**	**5,804**	**7,664**
Minority Interest	37	64	65	87	112
Total Loans	**207**	**477**	**427**	**377**	**327**
Capital Employed	**1,767**	**3,810**	**4,841**	**6,268**	**8,102**
Assets					
Gross Block	743	1,133	1,383	1,633	1,883
Less: Depreciation	258	320	457	604	773
Net Block	**485**	**813**	**926**	**1,029**	**1,110**
Capital WIP	0	117	150	190	229
Investments	**0**	**764**	**764**	**764**	**764**
Intangible Assets	410	546	546	546	546
Others - A	101	136	168	212	256
Current Assets					
Sundry Debtors	2,469	2,194	2,785	3,421	4,057
Cash and Bank Balance	243	548	975	1,751	3,152
Loans and Advances	276	500	681	858	1,037
Other Current Assets	128	922	1,096	1,271	1,535
Total Current Assets	**3,116**	**4,165**	**5,536**	**7,301**	**9,780**
Less: Current Liabilities & Provisions					
Sundry Creditors	802	476	625	754	900
Provisions	216	328	393	556	708
Other Current Liabilities	1,328	1,927	2,232	2,464	2,975
Total Current Liabilities & Provisions	**2,346**	**2,731**	**3,249**	**3,773**	**4,583**
Capital Applied	**1,767**	**3,810**	**4,841**	**6,268**	**8,102**

Source: Company reports, BP Equities Research

Key Ratios

YE March (Rs. mn)	FY09	FY10	FY11E	FY12E	FY13E
Key Operating Ratios					
EBITDA Margin (%)	11.9%	17.3%	16.8%	17.7%	18.6%
Tax / PBT (%)	20.8%	21.6%	22.0%	23.0%	23.0%
Net Profit Margin (%)	9.3%	12.6%	12.2%	13.0%	13.8%
RoE (%)	34.6%	35.1%	28.6%	28.7%	27.6%
RoCE (%)	30.6%	31.0%	25.5%	26.4%	26.1%
Current Ratio (x)	1.3x	1.5x	1.7x	1.9x	2.1x
Dividend Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%
BV Per Share (Rs.)	39.9	83.3	98.9	132.0	174.3
Financial Leverage Ratios					
Debt/ Equity (x)	0.1x	0.1x	0.1x	0.1x	0.0x
Interest Coverage (x)	31.0x	38.4x	94.0x	112.9x	130.3x
Interest / Debt (%)	9.5%	8.7%	3.5%	4.4%	5.5%
Growth Indicators %					
Gross Block Growth (%)	28.6%	52.5%	22.1%	18.1%	15.3%
Sales Growth (%)	43.9%	35.6%	33.0%	26.1%	20.7%
EBITDA Growth (%)	133.5%	96.9%	29.1%	33.5%	27.0%
Net Profit Growth (%)	167.5%	83.7%	28.6%	34.7%	27.8%
Diluted EPS Growth (%)	166.1%	78.9%	15.8%	33.4%	27.8%
Turnover Ratios					
Debtors days	184	121	115	112	110
Creditors days	68	32	31	30	30

Source: Company reports, BP Equities Research

Free Cash Flow Analysis

YE March (Rs. mn)	FY09	FY10	FY11E	FY12E	FY13E
EBITA	**534**	**1,082**	**1,344**	**1,829**	**2,340**
Less: Adjusted Taxes	111	234	296	421	538
NOPLAT	**423**	**848**	**1,048**	**1,408**	**1,801**
Plus: Depreciation	48	66	137	147	169
Less: Increase in Working Capital	688	929	614	582	650
Operating Cash flow	**(217)**	**(15)**	**571**	**974**	**1,321**
Less: Net Capex	78	510	283	289	289
Less: Increase in Net Other Assets	(358)	(392)	(113)	(49)	(316)
FCF From Operation	**64**	**(133)**	**400**	**733**	**1,348**
Less: Inc./(Dec.) in Investment	0	764	0	0	0
FCF after Investment	**64**	**(898)**	**400**	**733**	**1,348**
Plus: Gain/(loss) on Extraordinary Items	(0)	0	(10)	0	0
Total FCF	**64**	**(898)**	**390**	**733**	**1,348**

Source: Company reports, BP Equities Research

Valuation Ratios

YE March (Rs. mn)	FY09	FY10	FY11E	FY12E	FY13E
P/E (x)			**6.3x**	**4.7x**	**3.7x**
P/BV (x)			1.6x	1.2x	0.9x
EV/EBIDTA (x)			**4.3x**	**2.8x**	**1.6x**
EV/Sales			0.7x	0.5x	0.3x
Market Cap./ Sales (x)			**0.8x**	**0.6x**	**0.5x**
Dividend Yield (%)			0.0%	0.0%	0.0%

Source: Company reports, BP Equities Research

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Analyst (s) holding in the Stock : Nil

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