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Dilip Bhat  
91-22-6632 2200  
Jaspreet Chhabra  
91-22-6632 2256

Executive Director - Research  
DilipBhat@PLIndia.com  
Research Associate  
JaspreetChhabra@PLIndia.com

Result Update

# Infosys Technologies

BUY

Rs 2,088

April 13, 2007

## Q4 FY07 - Muted performance, again

### Company Details

Market Cap:	Rs 1,192bn
52 Week High/Low:	Rs 2,439/1,225
Bloomberg Code:	INFO@IN
Reuters Code:	INFY.BO / NS
Shares O/s:	571m
Average Volume (3 months):	1.7m

### Price Performance

(%)	1m	3m	12m
Absolute	0.5	(6.1)	38.2
Relative to Sensex	(6.2)	(1.3)	19.1

### Result Snapshot

Infosys' Q4FY07 results came in marginally below expectations. Revenue and net profit (excl. tax write back of Rs 1,240m) grew by 3.2% QoQ and 3.8% QoQ, respectively. EBITDA margins declined 100bps QoQ due to a strong Rupee. The volume growth was modest at 3.6% QoQ, and even that was driven largely by its top client, which grew by 27.1% QoQ. The guidance for FY08 of 24.6% revenue growth and 22.0% EPS growth is reasonably decent as it assumes 6% average revenue and profit growth in dollar terms for the next four quarters.

Infosys remains one of the best long-term plays on the Indian outsourcing story, however we believe in the near-term the degree of out performance could possibly be reduced given slower growth, strong rupee and fears over the US economy. Maintain long-term BUY with a price target of Rs 2,527 (23x FY09 earnings).

### Q4 FY07 Result Overview

(Rs m)

Y/e March	Q4FY07	Q3FY07	qoq gr. (%)	Q4FY06	FY06	FY07	yoy gr. (%)
Net Sales	37,720	36,550	3.2	26,240	95,216	138,930	45.9
Total Expenses	25,750	24,590	4.7	17,910	64,298	95,020	47.8
Operating Profits / EBITDA	11,970	11,960	0.1	8,330	30,918	43,910	42.0
Depreciation	1,450	1,410	2.8	1,440	4,371	5,140	17.6
EBIT	10,520	10,550	(0.3)	6,890	26,547	38,770	46.0
Other Income	1,200	590	103.4	720	1,406	3,720	164.6
PBT	11,720	11,140	5.2	7,610	27,953	42,490	52.0
Tax	270	1,300	(79.2)	810	3,132	3,860	23.3
Tax rate (%)	2.3	11.7		10.6	11.2	9.1	
PAT before Extra ordinaries	11,450	9,840	16.4	6,800	24,821	38,630	55.6
Extra ordinaries	(10)	(10)		(70)	(211)	(70)	
PAT after Extra ordinaries	11,440	9,830	16.4	6,730	24,610	38,560	56.7
Key Ratios							
GPM (%)	46.4	47.0	(0.6)	45.8	46.8	46.3	(0.5)
OPM (%)	31.7	32.7	(1.0)	31.7	32.5	31.6	(0.9)
EBITM (%)	27.9	28.9	(1.0)	26.3	27.9	27.9	0.0
NPM (%)	30.3	26.9	3.4	25.6	25.8	27.8	1.9
EPS (Rs.)	20.0	17.2	16.4	11.8	43.1	67.5	56.7
Adj. EPS before Extras (Rs.)	20.0	17.2	16.4	11.9	43.5	67.6	55.6

(Stock price as on April 12, 2007)



## Result Highlights

### Muted Revenues and Profit growth

Infosys grew revenues by 3.2% QoQ (5.1% in US\$ terms) and net profit by 3.8% QoQ (5% in US\$ terms). This is marginally below our expectations and well below its recent growth. EBITDA margins declined by 100bps, largely due to rupee appreciation.

The company added net 2,809 people during the quarter taking the net add for the year to 19,526. Given the strong hiring, the utilization dropped by 280bps QoQ and 290bps YoY. However, billing rates continue to improve with a blended increase of about 170bps QoQ.

### Bulk of growth driven by few clients

Infosys' top client grew by 27.1% QoQ accounting for over half of the quarter's overall growth. Excluding this one client, the rest grew by just 1.4% QoQ. Within domains too Telecom grew by 23.5% QoQ while the remaining registered a de growth of 1.3% QoQ. However, the management continues to maintain that the overall spending environment within its client group remains robust. We believe, while there will little reason for concern in the near-term, Infosys' growth going forward is unlikely to beat its 11% QoQ average of FY07.

### Guidance - Bit weak on growth, but good on margins

In Rupee terms Infosys has guided to revenue growth of 22.6-24.6% and EPS growth of 20-22% in FY08. In dollar terms the numbers are 28-30% and 25.7-27.7% respectively. The dollar guidance assumes average revenue and profit growth of 6% QoQ over the next four quarters. Accounting for the management's usual conservatism the growth assumption is reasonably decent. The management has guided to stable margins despite a stronger rupee given higher billing rates, reducing subsidiary losses and SG&A leverage.

### Earnings outlook

We expect Infosys to grow its revenues and earnings at a CAGR of 31% and 30% respectively over FY07-09. Infosys undoubtedly remains one of the best long-term plays on the Indian outsourcing story, we believe in the near-term the degree of out performance could possibly be reduced going forward given slower growth, strong rupee and fears over the US economy. Maintain long-term BUY with a price target of Rs 2,520 (23x FY09 earnings).

## Financials & Valuations

We expect Infosys to report revenues of Rs 18,223m and Rs 23,916m and net profit of Rs 5,001m and Rs 6,529m for FY08 and FY09, respectively. At the CMP of Rs 2,088, the stock quotes at 24.6x FY08E and 19.0x FY09E earnings. We maintain our BUY rating with a target price of Rs 2,527 (23x FY09E earnings).

**Key Figures**

Y/e March	FY06	FY07E	FY08E	FY09E
Revenues (Rs m)	95,216	138,930	182,228	239,163
EBITDA (Rs m)	30,918	43,910	56,864	73,894
<i>Margins (%)</i>	<i>32.5</i>	<i>31.6</i>	<i>31.2</i>	<i>30.9</i>
PAT (Rs m)	24,610	38,560	50,014	65,294
EPS (Rs)	43.1	67.5	85.0	109.9
PER (x)	48.5	30.9	24.6	19.0
EV / EBITDA (x)	37.5	25.8	19.8	14.5
EV / Sales (x)	12.2	8.2	6.2	4.5
<i>RoCE (%)</i>	<i>50.1</i>	<i>48.0</i>	<i>47.0</i>	<i>48.0</i>
<i>RoE (%)</i>	<i>40.4</i>	<i>42.3</i>	<i>41.4</i>	<i>42.4</i>

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