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8 December, 2010

Morning meeting notes

Major indices movements

Major indices	Clsg	1d (%)	3m (%)	6m (%)
BSE Sensex	19,935	(0.2)	6.9	18.8
Nifty	5,977	(0.3)	6.6	18.7
Dow	11,359	(0.0)	9.8	15.7
Nikkei	10,211	0.7	13.1	7.1
Hang Seng	23,366	(0.3)	10.8	19.9
Brasil Bovespa	69,338	(0.3)	3.9	13.3
Mexico Bolsa	37,880	0.4	16.7	23.2

Turnover

Value Traded (Rs bn)	7 Dec 2010	% Chg	52 Wk Hi	52 Wk Lo
Cash BSE	36.4	(1.2)	105.2	19.1
Cash NSE	142.0	5.6	298.5	18.2
Total	**178.3**			
Del.(%)	39.9			
F&O	972.6	(1.0)	2525.1	226.0
Total Trade	**1150.9**			

Fund Activity

Net Inflows (Rs bn)	Purch	Sales	Net	YTD
6 Dec 2010				
FII's	29.3	(28.6)	0.8	233.4
Domestic Funds	5.0	(7.7)	(2.7)	98.8
7 Dec 2010				
Cash Provisional			(1.3)	
F&O - Index	60.0	(66.5)	(6.5)	(27.6)
F&O - Stock	18.0	(18.8)	(0.9)	(11.6)

Advances/declines BSECash

7 Dec 2010	A	B1	B2	Total
Advance	86	506	121	713
Decline	118	1369	307	1,794

Commodity Prices

Commodity	8 Dec 2010	1d (%)	3m (%)	6m (%)
Crude (USD/Bbl)	90.5	(0.3)	16.9	25.5
Copper(usd/t)	8,880	1.3	16.4	45.5
Aluminum H.G.(usd/t)	2,305	0.0	6.5	23.4
Zinc(usd/t)	2,305	3.9	5.3	41.6

Debt/Forex Mkt	Clsg	1d (%)	3m (%)	6m (%)
Re/USD	44.65	0.7	4.9	5.5
10 yr Gsec Yield	8.08	(1.6)	1.8	8.0

Contents

- **Research Update included**

  Infinite Computer Solutions Initiating Coverage; Credible transformation in play
- **Dealer Comments**
- **Technical Comments**

News clippings

- The Bombay High Court has stayed Environment Ministry's direction to **Lavasa Corporation** to stop construction. However, Lavasa Corporation voluntarily agreed not to carry out any work till December 14.
- **Welspun Corp** has won new pipe and plate orders worth Rs 16.70 billion (approx 277 KMT for pipes and 57 KMT for plates), substantially from international markets, for execution over a period of one year. The current order book of the company stands at Rs 61.50 billion (approx 925 KMT for pipes and 103 KMT for plates), excluding orders being executed in the current quarter.
- The board of **Jyoti Structures** approved investing up to USD 12 million for setting up a unit for manufacturing lattice steel towers in the United States.
- During the period April-November 2010, net direct tax collections stood at Rs 2,166.28 billion, up from Rs 1,838.22 billion during the same period last fiscal, registering a growth of 17.85% and crossing 50% of the BE target of Rs 4,300 billion for fiscal 2010-11.
- CRISIL has said that the country's GDP is likely to grow by 8.6 per cent for 2010-11, up from its previous expectation of 8.2 per cent.
- On the back of faster economic expansion in the first half, the Government has said that the growth rate could cross 9 per cent in the current fiscal itself and revert to the pre-crisis levels.

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Infinite Computer Solutions

Credible transformation in play

Initiating Coverage

December 7, 2010

Reco

Buy

CMP	**Target Price**
Rs170	Rs 250

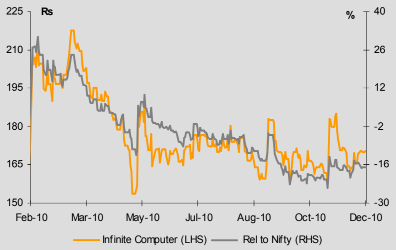
Nifty	5,992
Sensex	19,981

Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	7	1	-
Rel. to Nifty	(0)	(2)	(15)	-

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	ICSL@IN
Equity Capital (Rs mn)	440
Face Value(Rs)	10
No of shares o/s (mn)	44
52 Week H/L	222/152
Market Cap (Rs bn/USD mn)	7/153
Daily Avg Volume (No of sh)	78105
Daily Avg Turnover (US$mn)	0.3

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	63.8	63.8	63.8
FII/NRI	19.6	19.7	20.1
Institutions	5.0	4.3	4.1
Private Corp	1.6	2.1	1.9
Public	10.0	10.1	10.1

Source: Capitaline

- **Infinite is a 'credible transformation in play' offering the highest EPS growth(26% CAGR over FY10-13E) in our mid cap IT coverage universe at attractive valuations**
- **Apart from strong revenue growth (driven by aggressive client mining within a marquee client base), Infinite is likely to enjoy benefits of multi year margin tailwinds, in our view**
- **Estimate a 25%, 23% and 26% revenue, EBITDA and profit CAGR (28.4% US$ revenue CAGR assuming INR/US$ of Rs 45/$ for FY11, Rs 44/$ for FY12/13) over FY10-13E**
- **Growth at attractive valuations- Infinite trades at ~6x/4.7x FY12E/13E EPS, factoring in risks from high clients/vertical concentration. BUY with a March'12 TP of Rs 250**

Credible transformation in play

Infinite Solutions is a 'credible transformation in play', given its transformation from a 'nearly all onsite' player to a 'hybrid onsite-offshore' player. ***To elaborate, while Infinite's revenues have grown at 22% CAGR over FY07-10, margins have expanded by ~1400 bps over the same period, driving a near 8x jump in profits***. Infinite continues to gain from traction within its top client accounts (marquee names like Verizon, IBM, ACS) wherein Infinite has been able to compete successfully against more formidable Tier I competition helped by aggressive pricing/engagement terms. This, in our view should drive (1) higher than peer revenue growth (we expect ~25% revenue CAGR over FY11E-13E, (2) further uptick in margins as proportion of offshore revenues and non linear revenues increase (we build in a modest margin expansion of ~100 bps over FY11-13E). We estimate a 28% US$ revenue CAGR over FY10-13E, driving a 23% EBITDA and 26% profit CAGR over FY10-13E.

Large deals lend revenue visibility; should drive further improvement in margins

A number of large deals with marquee client names like Motorola, ACS and iYogi etc lend strong revenue visibility for Infinite (Expect US$ 20 mn/40 mn revenues from Motorola in FY11E/12E, iYogi ramping up to full capacity by Q4FY11). Further, despite a 1100 bps+ margin expansion over FY07-11E to 16.2%, we see further scope for margin expansion as (1) non linear deals ramp up (eg Motorola) , (2) offshore % of revenues increases (offshore % of revenues has increased by ~570 bps YoY to 33.8% in FY10) and (3) proportion of revenues from higher margin/ IP driven/non ADM services increases (Share of non ADM revenues has increased from 22% in FY07 to 42% of revenues in Q2FY11)

Growth + Reasonable valuations, Initiate with a BUY and a TP of Rs 250

We estimate a 26% EPS CAGR over FY10-13E. Infinite currently trades at 6x/4.7x FY12E/FY13E earnings of Rs 28.5/36.3 respectively. Despite some investor apprehensions on high client concentration (top 5 clients accounted for ~82% of revenues in Sep'10 quarter), more riskier revenue sharing large engagements, high single vertical focus (revenues from Telecom and media accounted for 61%+ of revenues in Sep'10 quarter) and poor free cash generation in the past, we believe that valuations are attractive and warrant a re-rating given ~40% P/E discount to mid tier peers. Initiate coverage on the stock with a BUY rating and a DCF based March'12 TP of Rs 250.

Financials

Y/E March (in Rs mn)	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA	P/B (x)
FY10	6,643	1,214	18.3	792	19.1	35.0	8.9	5.5	2.3
FY11E	8,645	1,403	16.2	1,045	23.7	28.9	7.2	4.7	1.9
FY12E	10,698	1,769	16.5	1,253	28.5	28.5	6.0	3.6	1.5
FY13E	13,226	2,270	17.2	1,596	36.3	29.5	4.7	2.6	1.3

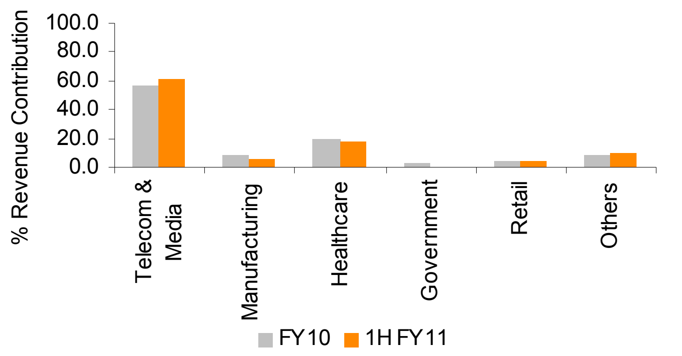
About the company

Infinite Computer Solutions (India) Limited was incorporated in 2000 and is a leading global provider of Application Management Services, Infrastructure Management Services (IMS) and Intellectual Property (IP) Leveraged Solutions.

Infinite operates out of five delivery centers in India (including subsidiaries) – with two in Bangalore, one each in Chennai, Gurgaon and Hyderabad. Company closed FY10 with revenues of $141 Mn. The company had a total headcount of 4,178 at the end of Q2 FY11.

Infinite primarily focuses on Telecom & Media (57% of FY10 revenues), Healthcare (20% of FY10 revenues) and Manufacturing (8% of FY10 revenues). The company has several marquee client names like Verizon, IBM, ACS , Fujitsu and Motorola amongst others with top client revenues at ~38% of revenues and Top 5 client revenues at ~84% of FY10 revenues.

Vertical wise Revenue Contribution %



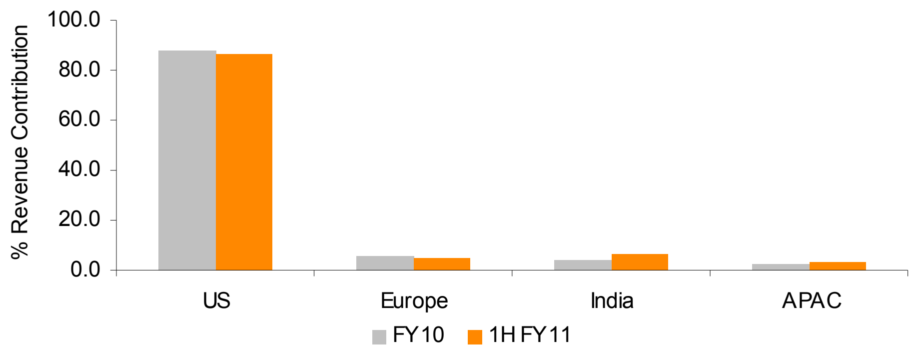
Source: Company, Emkay Research

Client Contribution %

Source: Company, Emkay Research

US accounts for a predominant proportion of revenues (revenues from US accounted for ~88%/86.4% of revenues in FY10/H1FY11).

Geographical Contribution %



Source: Company, Emkay Research

Financials at a Glance

	FY06	FY07	FY08	FY09	FY10	CAGR FY06-10
Revenue US $ Mn	77.0	77.2	85.0	105.2	140.9	16%
YoY Growth		*0%*	*10%*	*24%*	*34%*	
Revenue Rs. Mn	3405.45	3477	3401	4898.546	6643.1	18%
YoY Growth		*2%*	*-2%*	*44%*	*36%*	
EBITDA Rs. Mn	29.0	151.2	250.0	580.6	1213.5	154%
YoY Growth		*421%*	*65%*	*132%*	*109%*	
EBITDA Margin %	0.9	4.3	7.4	11.9	18.3	
PAT Rs. Mn	-4.9	101.5	174.9	457.7	791.8	NA
YoY Growth		*NA*	*72%*	*162%*	*73%*	

Source: Company, Emkay Research

Investment Rationale

Credible transformation in play

Over FY06-10, Infinite has transformed itself from an 'almost onsite services vendor' to a 'hybrid onsite-offshore services vendor', thereby driving an overall improvement in its financial profile. We highlight that although the company saw a relatively subdued 16% US$ revenue CAGR over FY06-10, its operating profits grew by ~150%+ CAGR over the same period (driven by ramp up in offshore delivery, which saw company expanding overall EBITDA margins from near break-even levels in FY06 to 18.3% in FY10).

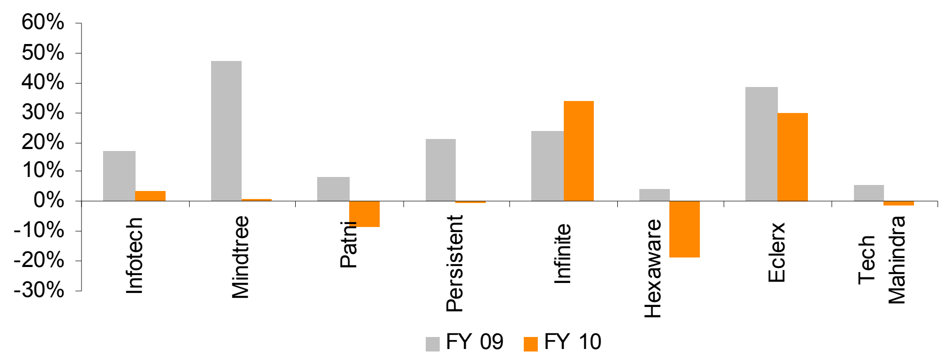
We see continuation of Infinite's superior financial growth and hence, forecast 'higher than peers' US$ revenue CAGR of 28% over FY10-13E, driven by ramp-up in existing marquee client accounts

Top clients traction to drive 'higher than peer' revenue growth

Infinite's top 5 clients account for 80%+ of FY10/H1FY11 revenues - significantly higher than other mid-tier peers, where top 5 client concentration hovers around 30-40%. However, high client concentration has not deterred Infinite's revenue growth due to its ability to mine several marquee client names like Verizon, IBM, ACS, Fujitsu, GE, Tellabs etc. amongst others, resulting in a healthy US$ revenue CAGR of 22% over FY07-10. Infact, Infinite's revenues grew by ~34% in FY10 over a 24% YoY growth in FY09 as compared to negative /flat YoY growth for other mid-tier peers.

Infinite's revenue growth has been strong even in FY09/10 when other peers reported negative/flat growth

YoY change in US$ revenues



Source: Companies, Emkay Research

'Superior client mining' helped by long standing relationships and flexibility on pricing/engagement models

Infinite's 'superior than peers' revenue growth has been driven by admirable client mining within several marquee client names like Verizon, IBM, ACS, Fujitsu amongst others, wherein in some cases, Infinite competes head on with much more formidable Tier 1 competition. In certain instances, Infinite has not only survived several rounds of vendor consolidation exercises, but has also emerged as a credible alternative vendor.

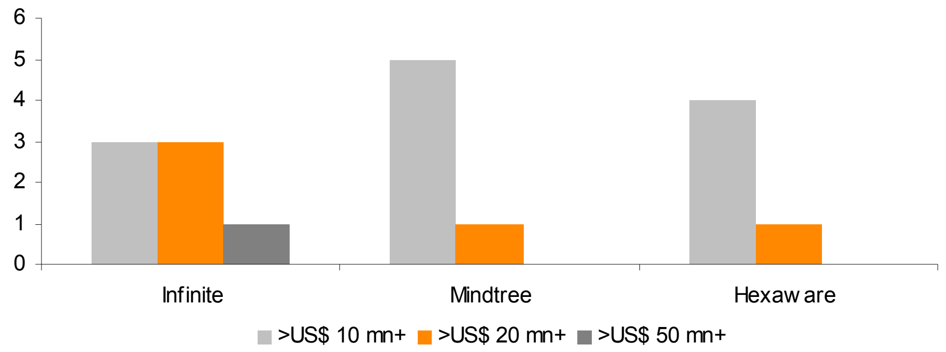
Infinite's success has been driven by more flexibility on pricing and engagement terms in the form of

- more aggressive pricing as Infinite's onsite rates are 'atleast 20%' lower than Tier 1 players,
- Willingness to enter into non linear/revenue sharing engagements, which require upfront investments on the part of IT vendors as well.

Infinite's success with large clients is very well reflected in the fact that Infinite has 3 US$ 20 mn+ p.a client accounts (including the top client, which contributes US$ 50 mn p.a). In comparison, peers like Mindtree and Hexaware have only 1 US$ 20 mn+ p.a client accounts, despite having higher number of US$ 10 mn+ p.a accounts.

Infinite's superior client mining is evident from the fact that though similar size peers Mindtree and Hexaware have higher US$ 10 mn+ clients, Infinite has 3 US$ 20 mn+ and 1 US$ 50 mn+ clients......

Infinite stands out for its client mining capabilities

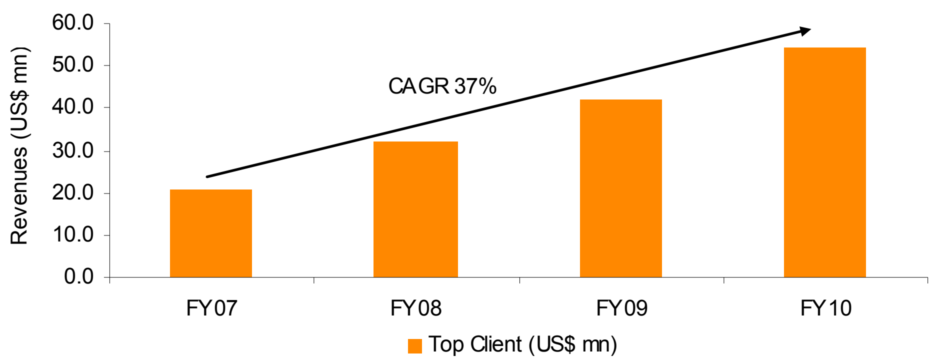


Source: Companies, Emkay Research

.....This stems from its ability to mine marquee client names despite competing head-on with Tier 1 competition in some cases

The secret sauce to Infinite's success in our view has been its strong long standing relationships with several marquee names and its ability to mine them over time. To cite an example, Infinite's relationship with its top client is almost a decade old with Infinite surviving several rounds of vendor consolidation exercises. Infinite's success at its top client is not only evident from its ability to survive vendor consolidation but also from the fact that it has the highest market share within the account. This is despite competing head on with Tier I Indian offshore players like Infosys, TCS and Wipro. Infinite has seen a 37% revenue CAGR from the top client as compared to 22% overall revenue CAGR over FY07-10. Though top client concentration at ~33% of revenues remains higher than other mid-tier peers, we expect top client revenue proportion to come down as ramp ups in other big client accounts and new client won during FY10/FY11 kick in.

Revenue growth from top client has continued to be strong



Source: Company, Emkay Research

Recent deals reflect Infinite's flexibility on engagement terms

Infinite's flexibility on engagement terms concerning non linear /revenue sharing pricing has also worked in its favor.

Infinite's deal with Motorola is a very good example of Infinite's flexibility in engaging with marquee client names. Under this deal, Infinite has taken over Motorola's software enabled short message service (SMS) and multi-media messaging service (MMS) platform. The revenues (support fees+ variable charges) for Infinite have been linked to the messaging volumes in such a way that fixed fees cover all of Infinite's costs. Infinite expects revenues of US$ 20 mn from this deal in FY11 and ~US$ 40 mn p.a starting from FY12 onwards.

APDRP contract: Reference point for similar deals in the international markets

APDRP contract will work as a good reference point for similar opportunities in the international market

Infinite has also won a large domestic contract worth ~Rs 1.3 bn under the Restructured Accelerated Reforms Program (R-APDRP), an initiative driven by the Government of India in collaboration with State Governments. In this contract, which aims at reducing transmission losses, Infinite is working primarily as a System Integrator. Despite being a hardware loaded contract, company maintains that this project satisfies its cut off margin levels of 15%+ over the entire life. 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.

iYogi contract to start reflecting fully from FY12 onwards.

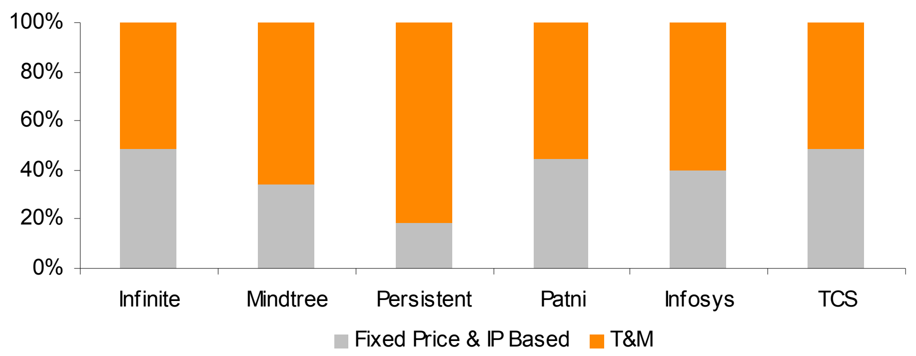
Ramp up on the iYogi contract to fully reflect in FY12 financials

Infinite signed a 3 yr engagement with iYogi Inc in Q4FY10 to provide L2 and L3 support to iYogi's customers across US, Canada, UK and Australia. Company has ramped up delivery on the contract to ~700 associates by Q2FY11 end and expects to reach steady state delivery stage by March'11 quarter (at around 1,000 associates). We expect full impact of the iYogi contract to reflect from FY12 onwards.

Multi year margin tailwinds provide comfort to our modest expansion assumptions

Infinite's operating margins have expanded by ~1400 bps over FY07-10 to 18.3% on several counts namely (1) higher offshore delivery (offshore % of revenues have increased to 34% in FY10 V/s 24.3% in FY07), (2) higher growth in non ADM business, primarily IP driven /product development services and Testing services (non ADM revenues grew ~3x over FY07-10 and accounted for ~37% of revenues in FY10) and (3) increase in proportion of fixed bid and revenue sharing engagements (share of fixed bid and revenue sharing business has increased from ~21% in FY07 to ~50% in FY10).

Infinite has the highest proportion of non T&M engagements amongst peers

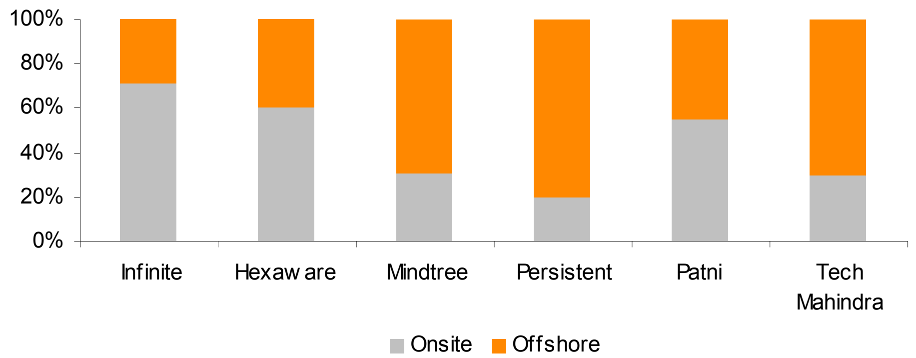


Source: Companies, Emkay Research

Going ahead, we see several margin tailwinds like (1) increasing proportion of non traditional ADM (higher margin service lines),and (2) higher proportion of offshore delivery; working in Infinite's favor.

Offshore revenue shift is a multi year margin lever for Infinite

Onsite Offshore Mix Q2FY11



Source: Companies, Emkay Research

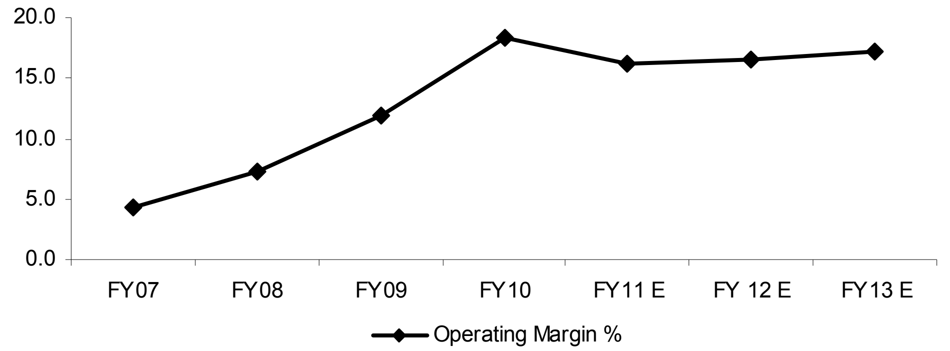
We see several margin tailwinds for Infinite that could possibly drive margins way higher than our 'modest margin accretion' of ~100 bps over FY11E-13E in the form of

- Higher proportion of business from non- traditional service lines – Infinite's business from IP driven /Product development services, Testing Services and RIM services continues to increase faster than ADM services (note that revenues from ADM services increased by ~14% CAGR, non ADM services grew by ~44% CAGR over FY07-10). We believe that increasing proportion of business from non- traditional service lines and newer clients are likely to further expand Infinite's margins.

- Increase in offshore delivery - Although Infinite has seen a reduction in offshore proportion of revenues in H1FY11 on account of onsite ramp ups in some client accounts; we see this reversing going forward. Infact, we believe that despite the significant enhancement in delivery capabilities for Infinite, its onsite proportion of business still remains significantly higher than peers and is a multi -year margin tailwind.

We build in a modest 100 bps margin expansion over FY11-13E. However, margin tailwinds for Infinite should keep kicking for several years.

See upsides to our modest margin expansion expectations



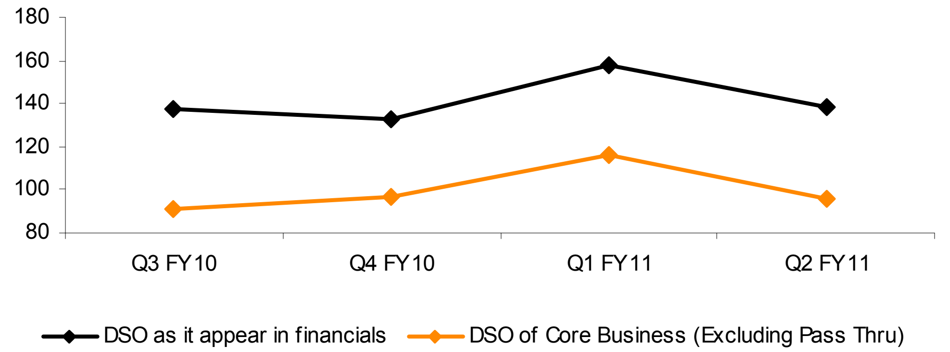
Source: Company, Emkay Research

DSO bloated on account of managed relationship with software major

Infinite's receivables days appear bloated on account of its relationship with IBM, wherein apart from the services that Infinite provides, it also manages relationships for other sub tier vendors. Hence, the sub tier vendors route their billing and collections transactions through Infinite, thereby inflating the values for both debtors as well as creditors. We note that while Infinite only recognizes revenues net of pass through, receivables include the entire pass through revenues thereby appearing high. We note that the DSO (after adjusting for Pass through Sales) is significantly lower at 96 days at the end of Q2FY11.

Infinite's DSO is bloated because of the IBM engagement. DSO adjusted for that stood at a more reasonable level of 96 days in Q2FY11

Infinite's DSO(ex pass through business) is more reasonable



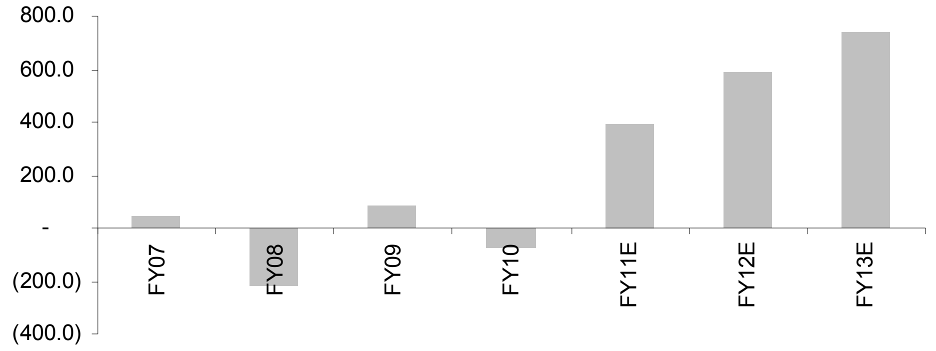
Source: Company, Emkay Research

Poor cash generation in the past, should improve going forward

Infinite's acquisition of the Motorola platform in FY10 and acquisition of Comnet in FY08 has been a drain on its cash generation. We believe that its cash generation should improve going forward as (1) company's investments both on the Motorola platform as well as the iYogi deal get completed and (2) company improves its collection from clients, thereby reducing its debtor days

Cash flow should improve going forward.

Free Cash Flow (Rs. Mn)



Source: Company, Emkay Research

Estimate revenue, EBITDA and PAT CAGR of 25.5%, 23% and 26% over FY10-13E

Infinite has reported a 24%, 99% and 97% CAGR in revenues, EBITDA and profits over FY07-10, on account of the 1400 bps expansion in its operating margins. We expect Infinite to sustain this impressive performance and have modeled in a 25.5%, 23% and 26% revenue, EBITDA and profit CAGR over FY10-13E. We have assumed a 28.4% US$ revenue CAGR over FY10-13E, and model in exchange rates of Rs 45/$ for FY11 and Rs 44/$ for FY12/13 respectively. We expect Infinite to report earnings of Rs 23.7, Rs 28.5 and Rs 36.3 for FY11, FY12 and FY13 respectively.

	FY09	FY10	FY11E	FY12E	FY13E	CAGR FY10-13E
Revenue (in US $)	105	141	192	243	301	29%
Growth %	*23.8*	*33.9*	*36.4*	*26.5*	*23.6*	
Revenue (in Rs. Mn)	4,899	6,643	8,645	10,698	13,226	26%
Growth %	*44.0*	*35.6*	*30.1*	*23.8*	*23.6*	
EBITDA (in Rs. Mn)	581	1,214	1,403	1,769	2,270	23%
Growth %	*132.2*	*109.0*	*15.6*	*26.1*	*28.3*	
PAT (in Rs. Mn)	458	792	1,045	1,253	1,596	26%
Growth %	*161.7*	*73.0*	*32.0*	*19.9*	*27.4*	

Growth + Reasonable valuations; Initiate with a BUY and a March'12 TP of Rs 250

Valuations are attractive for a 26% EPS CAGR over FY10-13E and warrant a re-rating given ~40% P/E discount to peers

We estimate a 26% EPS CAGR over FY10-13E. The stock currently trades at 6.1x/4.7x FY12E/FY13E earnings of Rs 28.5/36.3 respectively. Despite some investor apprehensions on high client concentration (top 5 clients accounted for ~82% of revenues in Sep'10 quarter), more riskier revenue sharing large engagements, high single vertical focus (revenues from Telecom and media accounted for 61%+ of revenues in Sep'10 quarter) and poor free cash generation in the past, we believe that valuations are attractive. We initiate with a BUY and a DCF based March'12 TP of Rs 250.

	CMP**	Market Cap	Revenue CAGR	EBITDA CAGR	EBITDA Mgn %	PAT CAGR	ROE	P/E		
		Rs. Mn	FY10-13 E	FY10-13 E	FY11 E	FY10-13 E	FY11 E	FY11E	FY12E	FY13E
Kpit Cummins Infosystems Ltd*	144	11,367	23%	16%	18%	22%	22.2	12.3	**9.9**	7.6
Infotech Enterprises Ltd*	152	16,955	23%	12%	18%	9%	15.0	11.5	**9.4**	8.2
Mindtree Ltd*	521	20,858	19%	14%	17%	3%	14.6	19.8	**11.2**	9.2
Patni Computer Systems Ltd	465	60,984	13%	6%	20%	-2%	17.2	11.6	**13.2**	11.7
Persistent Systems Ltd*	401	16,054	25%	19%	24%	12%	22.7	11.0	**10.6**	8.6
Infinite Computer Solutions	170	7,480	29%	23%	16%	26%	28.9	7.2	**6.0**	4.7
Hexaware Technologies Ltd	88	12,785	15%	-2%	8%	6%	7.8	18.5	**8.8**	8.0
Eclerx Services Ltd	751	21,591	30%	24%	36%	29%	51.3	18.7	**15.3**	14.2
Tech Mahindra Ltd	665	83,700	14%	2%	19%	1%	28.4	9.6	**8.6**	8.0

*Source: Emkay Research, * Bloomberg Consensus Estimates*

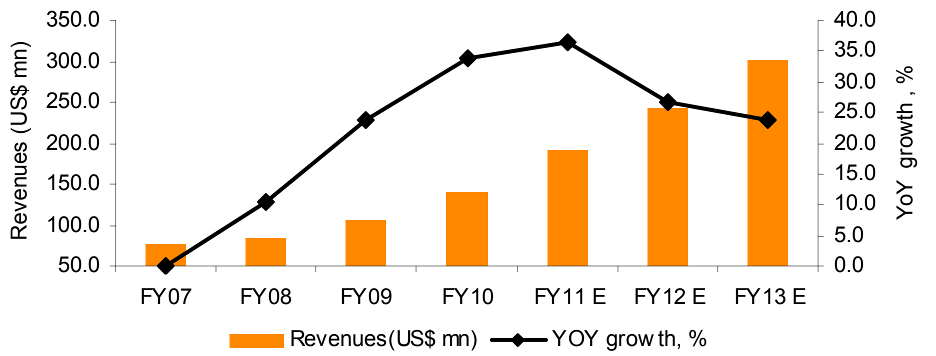
*** Prices as on Dec 6'2010*

Financial Overview

Estimate 25.5% revenue CAGR over FY10-13E

Infinite has seen a 22% US$ revenue CAGR over FY07-10. Infact, Infinite's revenue growth has been outstanding at a 34% YoY growth in FY10 (over a 24% YoY increase in FY09) while other peers have reported negative/flat growth in revenues. We estimate a 25.5% YoY growth in INR terms over FY10-13E (28.4% US$ revenue CAGR over FY10-13E assuming INR/US$ exchange rates of Rs 45/$ for FY11 and Rs 44/$ for FY12/13 respectively). Our revenue growth hypothesis hinges on ramp ups in existing large client accounts as well as ramp up on new client wins like Motorola, iYogi etc.

Revenues (US$ mn) , YoY growth %

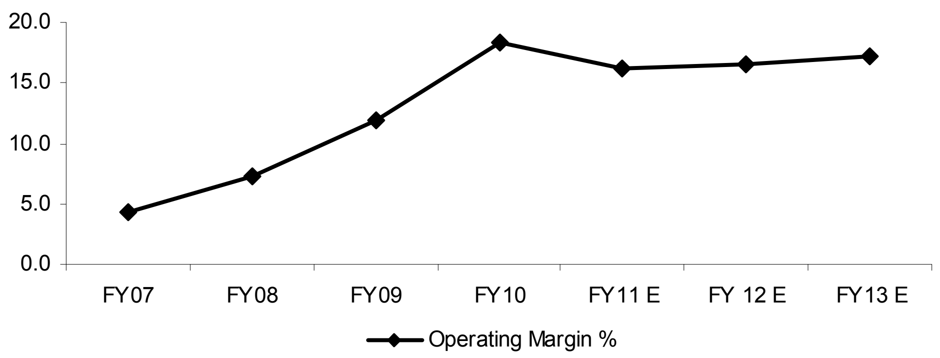


Source: Company, Emkay Research

Expect operating margins to expand by ~100 bps over FY11E-13E

We see several margin tailwinds kicking in for Infinite going ahead in the form of higher proportion of revenues from (1) non traditional ADM business (non ADM higher margin businesses have grown at 44% CAGR V/s 14% for ADM businesses over FY07-10), (2) non T&M engagement models (fixed bid and revenue sharing engagements now account for almost 50% of revenues for Infinite, For eg. Margins on the Motorola contract could be twice the company's overall margins at steady state) and (3) offshore delivery(Infinite's offshore % of revenues expanded by ~500 bps over FY10 alone before falling in H1FY11 on account of ramp ups in large deals, which should reverse going forward). We expect a modest expansion in operating margins by ~100 bps to 17.2% over FY11E-13E.

Expect operating margins to expand by 100 bps over FY11E-13E



Source: Company, Emkay Research

Estimate profit CAGR of 26% over FY10-13E

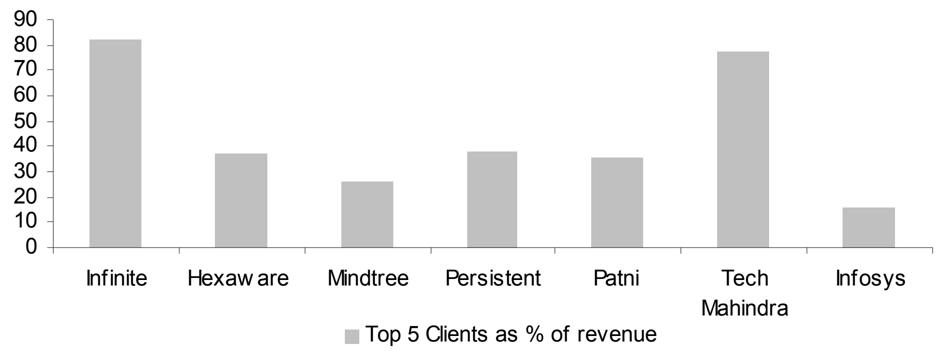
Infinite's profits have grown nearly 8x over FY07-10, driven by a 22% US$ revenue CAGR and ~1400 bps improvement in operating margins over the period. We see continuation of Infinite's financial profile and estimate a 26.4% profit CAGR over FY10-13E. We expect Infinite to report earnings of Rs 23.7, Rs 28.5 and Rs 36.3 for FY11, FY12 and FY13 respectively. Infinite is unlikely to see a steep increase in tax rates (FY10 effective tax rate at ~22%,which would increase to 25% for FY12/13 respectively) unlike peers, who are likely to see a sharp increase in tax rates due to expiry of STPI tax holiday.

Key Risks

High dependence on fewer clients

Infinite suffers from high client concentration risk as compared to other mid-tier peers with top 5 clients contributing ~82% of revenues. 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 remain cognizant of the above risk. However, we point out to the fact 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.

Infinite suffers from high client concentration as compared to peers



Source: Companies, Emkay Research

Currency appreciation- a key risk. However, margin sensitivity lower on account of higher onsite delivery

Infinite, akin to other IT services vendors is exposed to the vagaries of exchange rates. However, we note that the EBITDA margin sensitivity for Infinite is lower as compared to other mid-tier players on account of higher onsite delivery of revenues. Our calculations suggest that for every 1% change in US$/INR , EBITDA margins get impacted by ~32 bps for Infinite as compared with a 35-50 bps impact for other peers.

Valuations and Recommendation

Growth + Reasonable valuations. Initiate coverage with a BUY rating and a Mar'12 TP of Rs250

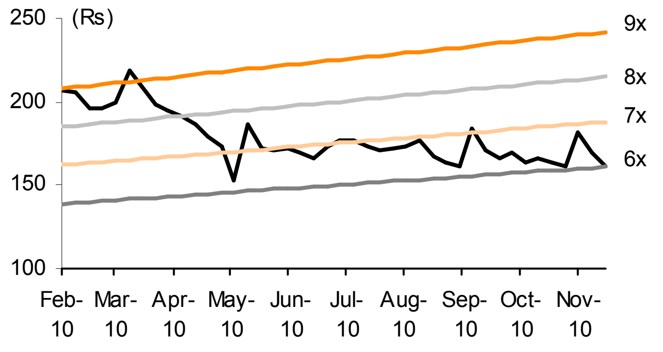
We expect a 26% EPS CAGR over FY10-13E with earnings of Rs 23.7, Rs 28.5 and Rs 36.3 respectively for FY11, FY12 and FY13 respectively. Despite some investor apprehensions on (1) high client concentration (top 5 clients account for ~82% of revenues), (2) high single vertical focus (Telecom and media alone accounted for 60%+ of revenues) and (3) riskier revenue sharing/non linear engagement models, we believe that valuations are attractive and warrant a re-rating given ~40% discount to mid tier peers. Initiate coverage with a BUY rating and a DCF based March'12 TP of Rs 250, which implies ~9x/7x FY12/FY13E earnings. Key risks to our call emanate from (1) lower than expected revenue trajectory, (2) higher than expected US$/INR appreciation.

	CMP **	Market Cap	Revenue CAGR	EBITDA CAGR	EBITDA Mgn %	PAT CAGR	ROE	P/E		
		Rs. Mn	FY10-13 E	FY10-13 E	FY11 E	FY10-13 E	FY11 E	FY11E	FY12E	FY13E
Kpit Cummins Infosystems Ltd*	144	11,367	23%	16%	18%	22%	22.2	12.3	**9.9**	7.6
Infotech Enterprises Ltd*	152	16,955	23%	12%	18%	9%	15.0	11.5	**9.4**	8.2
Mindtree Ltd*	521	20,858	19%	14%	17%	3%	14.6	19.8	**11.2**	9.2
Patni Computer Systems Ltd	465	60,984	13%	6%	20%	-2%	17.2	11.6	**13.2**	11.7
Persistent Systems Ltd*	401	16,054	25%	19%	24%	12%	22.7	11.0	**10.6**	8.6
Infinite Computer Solutions	170	7,480	29%	23%	16%	26%	28.9	7.2	**6.0**	4.7
Hexaware Technologies Ltd	88	12,785	15%	-2%	8%	6%	7.8	18.5	**8.8**	8.0
Eclerx Services Ltd	751	21,591	30%	24%	36%	29%	51.3	18.7	**15.3**	14.2
Tech Mahindra Ltd	665	83,700	14%	2%	19%	1%	28.4	9.6	**8.6**	8.0

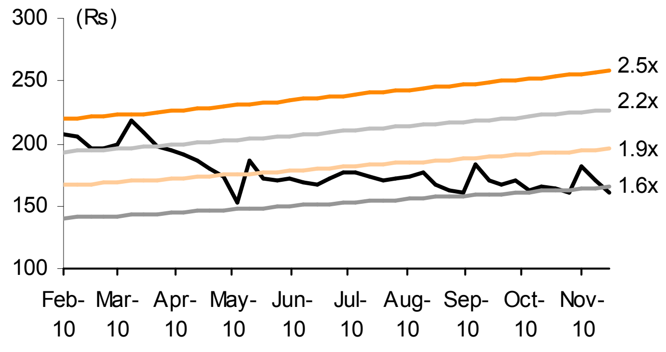
*Source: Emkay Research, * Bloomberg Consensus Estimates*

*** Prices as on Dec 6'2010*

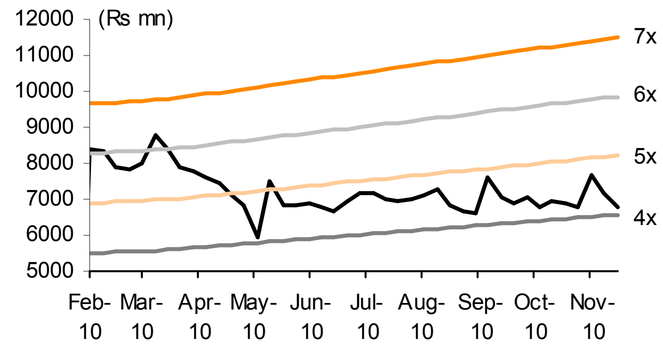
1 Year forward P/E Bands



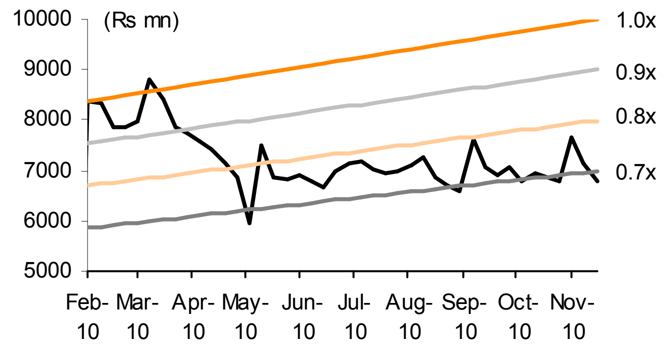
1 Year forward P/BV



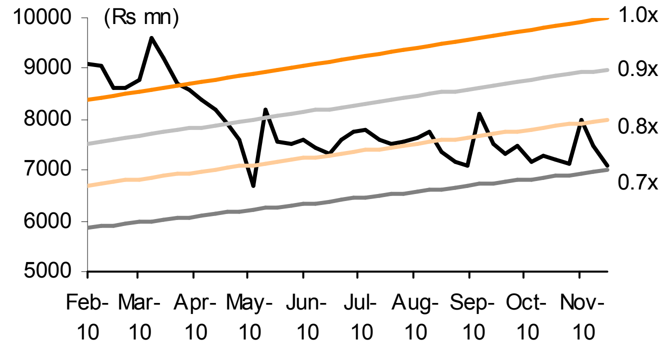
1 Year forward EV/EBITDA



1 Year forward EV/Sales



1 Year forward Market cap/Sales



Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Net Sales	6,643	8,645	10,698	13,226
Growth (%)		30.1	23.8	23.6
Total Expenditure	(5,430)	(7,242)	(8,929)	(10,956)
Growth (%)		33.4	23.3	22.7
EBIDTA	1,214	1,403	1,769	2,270
Growth (%)		15.6	26.1	28.3
EBIDTA %	18.3	16.2	16.5	17.2
Other Income	(112)	87	96	88
Depreciation	66	126	158	192
EBIT	**1,036**	**1,364**	**1,708**	**2,165**
Interest	13	29	37	37
EBT	**1,024**	**1,336**	**1,670**	**2,128**
Tax	232	291	418	532
EAT	**792**	**1,045**	**1,253**	**1,596**
Growth (%)		32.0	19.9	27.4
EAT (%)	11.9	12.1	11.7	12.1

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Equity share capital	440	440	440	440
Reserves & surplus	2,830	3,515	4,401	5,530
Minority Interest	-	-	-	-
Networth	**3,270**	**3,954**	**4,841**	**5,970**
Secured Loans	161	531	531	531
Unsecured Loans	316	-	-	-
Loan Funds	**477**	**531**	**531**	**531**
Deferred Tax Liabilities	64	134	134	134
Total Liabilities	**3,810**	**4,619**	**5,506**	**6,635**
Goodwill	546	542	542	542
Gross Block	1,133	1,573	2,013	2,541
Less: Depreciation	(320)	(446)	(604)	(796)
Net block	**1,359**	**1,670**	**1,952**	**2,287**
Capital WIP	**117**	**-**	**-**	**-**
Investment	**764**	**764**	**764**	**764**
Current Assets	**4,165**	**5,165**	**6,575**	**8,305**
Inventories	-	-	-	-
Sundry debtors	3,095	3,718	4,543	5,617
Cash & bank balance	548	665	948	1,275
Loans & advances	500	758	1,055	1,377
Other current assets	22	24	29	36
Current Liab & Prov	**2,731**	**3,150**	**3,956**	**4,892**
Current liabilities	2,403	2,724	3,459	4,276
Provisions	328	426	497	616
Net current assets	**1,434**	**2,015**	**2,620**	**3,413**
Misc exps	**-**	**-**	**-**	**-**
Deferred Tax Assets	**136**	**170**	**170**	**170**
Total Assets	**3,810**	**4,619**	**5,506**	**6,635**

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Net Profit after Tax	792	1,045	1,253	1,596
Add : Depreciation	66	126	158	192
Add : Misc exp w/off	-	-	-	-
Net changes in WC	**(430)**	**(533)**	**(393)**	**(585)**
Operational Cash Flows	**491**	**742**	**1,090**	**1,321**
Capital expenditure	**(646)**	**(320)**	**(440)**	**(528)**
Investments	(764)	-	-	-
Investing Cash Flows	**(1,410)**	**(320)**	**(440)**	**(528)**
Borrowings	270	54	-	-
dividend paid	-	(360)	(366)	(467)
Issue of shares	955	(0)	(0)	(0)
Share Premium				
Financing Cash Flows	**1,225**	**(306)**	**(366)**	**(467)**
changes in cash	**305**	**116**	**284**	**326**
Opening balance	**243**	**548**	**665**	**948**
Closing balance	**548**	**665**	**948**	**1,275**

Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
EPS (Rs)	19.1	23.7	28.5	36.3
CEPS (Rs)	20.6	26.6	32.1	40.6
Book Value Per Share (Rs)	74.3	89.9	110.0	135.7
Dividend Per Share (Rs)	-	7.0	7.1	9.1
Valuations Ratios (x)				
PER	8.9	7.2	6.0	4.7
P/CEPS	8.3	6.4	5.3	4.2
P/BV	2.3	1.9	1.5	1.3
EV/EBIDTA	5.5	4.7	3.6	2.6
EV/Sales	1.0	0.8	0.6	0.5
M-Cap/sales	1.1	0.9	0.7	0.6
Profitability Ratios (%)				
RoCE	37.5	27.8	29.2	31.3
RoNW	35.0	28.9	28.5	29.5
EBITDA Margin	18.3	16.2	16.5	17.2
EBIT Margins	17.3	14.8	15.1	15.7
Net Profit Margin	11.9	12.1	11.7	12.1

Nifty movers

Top Gainers	Price	Index Points
Reliance Ind.	1030.75	6.0
Infosys Tech	3178.60	5.7
Hindalco	226.80	2.4
ONGC	1337.95	2.0
NTPC	191.60	2.0
Losers		
ICICI Bank	1110.50	-15.7
SBI	2864.50	-7.6
Axis Bank	1324.50	-5.0
HDFC Bank	2351.65	-3.8
TATA Motors	1335.40	-2.5

Index- volatility

Indices	Sensex	Nifty
High	20008	6001
Low	19824	5940
Close	19935	5977
Volatility	184	61
(in %)	0.92	1.02

Dealer Comments

Market Summary: The markets started the day's session on a very quiet note almost flattish tracking weak to subdued cues from the global markets particularly the mixed Asian counterparts. Post flattish opening markets traded marginally above yesterday's closing levels for sometime and thereafter wilted under selling pressure to slip in the red led by good sell off in the banking space. Markets continue to witness absence of any major flows either on buying or selling for most part of the day for third consecutive day and looks to be in a very lacklustre mood. Once again concerns over China tightening interest rates again this weekend to curb excessive heating of their economy resurfaced led to subdued trading in the Asian markets. Today banking stocks continued to reel under selling pressure post RBI asking the banks to trim their interest margins with an all round selling across the space. While metal space continued to sizzle with buying interest for second day in a row. Besides buying in oil & gas, cement, select technology and auto stocks helped markets to limit losses for the day. Finally the markets once again closed the day on a marginal negative note towards the end with Sensex losing 47 points or 0.23% lower to settle at 19935 levels while Nifty lost a mere 16 points or 0.26% lower to settle at 5976 levels. The overall market breadth indicating the strength of the market continued to remain weak as broader markets witnessed selling action with Midcap index and Smallcap index losing almost 1.3% each and was at almost – 2.2x. Among the sectoral indices it displayed a mixed trend with Oil & Gas, Metal, IT, Power and Healthcare out performing the most while Bankex, PSU, Realty, FMCG and Consumer Durables under performing the most. Among the index heavy weights which gained the most were Reliance Ind, Infosys, Hindalco, ONGC and NTPC while ICICI Bank, SBI, Axis Bank, HDFC Bank and Tata Motors and ended as losers. Among the midcap space stocks, which saw good buying action in a volatile markets were Spice Mobility, Hexaware, Sundaram Clayton, Amtek Auto, Amar Remedies, Piramal Healthcare, Karuturi Global, Jain Irrigation, Polaris, HBL Power, Prakash Ind, Subex, Hanung Toys and GSPL and were up in the range of 4-14%.

The overall traded volumes were flattish compared to the earlier day and were at Rs 1151 bn. While delivery based volumes were also slightly higher compared to the earlier day at 42.5% of the total traded turnover.

Among the Fund activities FII's were net buyers to the tune of Rs 0.61 bn on 6th December 2010. While on 7th December 2010 FII's were net sellers to the tune of Rs 5.23 bn in the cash segment while in the F&O segment FII's were net sellers to the tune of Rs 7.40 bn while Domestic Funds were also net sellers to the tune of Rs 4.27 bn.

Home

Indices

Indices	Today's close	% chg
Sensex	19,934.64	-0.23
Nifty	5976.55	-0.26
S&P CNX 500	4844.05	-0.47
BSE 500	7,820.49	-0.48
BSE Mid-Cap	7,772.23	-1.04
BSE Small-Cap	9,604.63	-1.70
BSE Auto	10,333.42	0.08
BSE Health	6,721.77	0.28
BSE FMCG	3,566.95	-0.46
BSE IT	6,286.37	0.31
BSE PSU	9,437.05	-0.68
BSE Bankex	13,339.43	-2.86
BSE Oil & Gas	10,505.97	0.91
BSE Metal	16,677.03	0.69
BSE Cons Dur	6,339.07	-0.39
BSE Cap Good	15,464.04	0.08
BSE Realty	2,913.07	-0.93
BSE Power	2,937.73	0.29

Levels to watch

	Sensex	Nifty
Day's High	20019	6001
Day's Low	19824	5939
21 EDMA	19900	5982
55 EDMA	19807	5958

Trend Tracker

	Up/ Down	Sensex/ Nifty	Sensex/ Nifty
		Target	Reversal
Short Term*	↓	19253/5780	20300/6090
Mid Term*	↑	21110/6336	19,000/5700
ST: 0-14 Days		MT: 14-45 Days	

Nifty Intraday levels to watch

	Support	Resistance
Nifty	5937/5954	6004/6040

Tech*Check*

Below the averages

Indian indices waited in the red for a larger part of the trading session today. Although, there were some attempts made in the afternoon session to push above the dotted line, which proved futile and the markets closed into the red in the final trading hour. Also, the final closing was below 20- and 50- daily simple moving averages, which indicates that Nifty is still facing selling pressure on every spurt. Apart from this, intraday chart of Nifty has also opened up a possibility of "Head-and-shoulders" pattern, which is still under making. Moreover, the right shoulder is still below 20-HSMA, and the pattern will remain valid unless Nifty goes pass our short term reversal.

Sectoral Speak

BSE Bankex:

BSE Bankex was the key loser in today's session and since it is standing at the channel support, we feel that a bounce may be witnessed in the coming session.

Technical Recommendations

EPT Calls

Date	Stocks	Action	Reco. Price	Stop-loss	Target	Current price	% change	Comment
26.11.10	**ICICI Bank**	Buy	1134.00	1144.30	1210/1269	**1116.00**	-1.58	Exit
30.11.10	**L&T**	Buy	1940.00	1978.40	2060/2149	**2024.00**	4.32	
01.12.10	**Cipla**	Buy	370.00	354.30	390/409	**372.00**	0.54	
06.12.10	**Jet Airways**	Sell	822.00	874.60	771/721	**820.00**	0.24	

Note: *Kindly note that all stop losses for EPT calls are on daily closing basis (DCL), unless specified.*

EMT Calls

Date	Stocks	Action	Reco. Price	Stop-loss	Target	Current price	% change	Comment
06.12.10	**Axis bank**	Sell	1382.00	1461.00	1300/1222	**1326.00**	4.05	Profit booked
06.12.10	**Nifty Fut**	Sell	6003.00	6115.00	5890/5800	**6021.00**	-0.29	
06.12.10	**Kotak Bk**	Sell	481.00	496.00	464/448	**469.00**	2.49	Profit booked

Note: *Kindly note that all stop losses for EMT calls are on intraday basis, unless specified.*

Home

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