SELL

Infotech Enterprises Ltd (Q4 FY08)

April 22, 2008

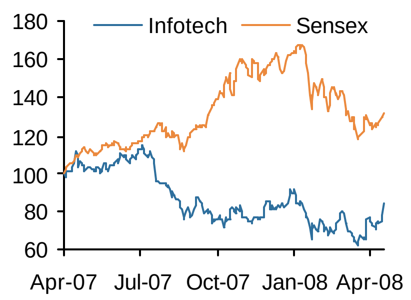
Stock data

Sensex:	16,739
CMP (Rs):	282
Target price (Rs):	245
Downside (%):	(13.1)
52 Week h/l (Rs):	414/194
Market cap (Rs cr)	1,469
6m Avg vol BSE&NSE ('000 nos):	49.2
No of o/s shares (mn):	52.1
FV (Rs):	5
Bloomberg code:	INFTC IN
Reuters code:	INFEBO
BSE code:	532175
NSE code:	INFOTECENT

Shareholding pattern

December 2007	(%)
Promoters	25.0
FIIs	19.7
Indian institutions	13.7
Public	41.6

Share price trend



India Infoline Research Team
research@indiainfoline.com

- Q4 revenue growth at 6% qoq was below expectations
- EBITDA margin was flat qoq despite a sharp improvement in gross margin
- Net profit growth at 21% qoq was buoyed by higher other income and IASI profit share
- Management expects 30-35% dollar growth in FY09
- Retain SELL with one-year target price of Rs245 implying 13% downside

Result table

Period	Q3 FY08	Q4 FY08	QoQ	YoY
(Rs mn)	**(3)**	**(3)**	**(%)**	**(%)**
Net sales	1,769	1,874	6.0	23.9
Total Expenditure	(1,448)	(1,532)	5.8	27.3
EBIDTA	320	342	6.6	10.8
EBITDA margin (%)	18.1	18.2	-	-
Depreciation	(99)	(103)	3.9	40.1
Interest	(13)	(12)	(8.0)	400.0
Other income	55	92	68.1	396.2
PBT	263	319	21.1	27.1
Tax	(62)	(86)	38.3	98.4
PAT	201	233	15.7	12.2
IASI profit share	13	27	108.6	(35.5)
APAT	214	259	21.3	4.2
Number of shares (Mn)	52.1	52.1	-	-
EPS (Rs) - Quarterly	4.1	5.0	-	-

Source: Company, India Infoline Research

Revenue growth below expectations

Revenue growth of 6% qoq was below expectations and comprised 4.7% volume growth, 0.5% growth from pricing improvements and 0.8% growth due to depreciation of the rupee. The revenue growth in the quarter was driven by the UTG segment which witnessed a strong growth of 11.4% qoq. This is on the back of an exceptionally strong 18.3% qoq growth witnessed in Q3 FY08. The strong performance in this division is driven by execution of large upgrade and migration assignments won during Q2 FY08 and Q3 FY08 from Tier-I telecos in India and Australia. EMI growth was far below expectations for the second consecutive quarter at 2.6% qoq. Growth in this segment was impacted by a delay in work flow from the Top client, Pratt & Whitney, and completion of a major project with respect to another customer. As a result, the revenue mix shifted sequentially from 39:61 to 41:59 between UTG and EMI.

Sluggish growth in large accounts and geographies

During the quarter, revenues from the Top 5 clients grew 4.7% qoq and that from the next five customers declined sharply by 17.5% qoq. The non Top-10 customers continued to drive growth for the fourth consecutive quarter. Amongst geographies, growth was single-handedly driven by an exceptional 52% jump in revenues from Asia/Australia. This region had clocked a growth of 75% qoq in the previous quarter.

EBITDA margin was flat qoq despite a sharp improvement in gross margin

EBITDA margin at 18.2% in Q4 FY08 were flat qoq. There was a sharp improvement of ~450 bps qoq in gross margin partly driven by writeback of some provisions related to employees. However, a sharp increase in SG&A of similar magnitude on sequential basis restricted any margin improvement. In absolute terms, SG&A increased by Rs100mn qoq which included some one-time expenses to the tune of ~Rs20mn. For FY08, EBITDA margin declined 280 bps over FY07 to 18.1%.

Net profit growth at 21% qoq buoyed by higher other income and higher IASI profit share

Other income was 69% higher qoq at Rs92mn drive by significantly higher treasury income (interest and dividends) at ~Rs50mn due to year-end. IASI profit share jumped 100%+ qoq to Rs25mn. As a result, net profit growth was robust at 21% qoq.

Management expects 30-35% dollar growth in FY09

Based on the current order book, COE (Centres of Excellence) run-rate and business pipeline, management expects dollar revenue growth between 30-35% in FY09. The first two visibility factors cover 60-65% of the growth outlook. On segmental basis, company expects 25-30% growth in UTG and 35-45% growth in EMI. EBITDA margin is expected to remain stable yoy ie near ~18%. Infotech plans to add net ~2,000 people in FY09.

Retain SELL with one-year target price of Rs245 implying 13% downside

We retain SELL recommendation on Infotech as our target price of Rs245 based on 12.5x FY09E EPS (assigned P/E multiple is at premium to median mid-cap valuation) implies a downside of 13%. The only risk to our view would be any EPS accretive acquisitions, which the company is actively scouting for. We believe that relatively strong growth outlook and niche positioning of Infotech in the mid-cap space is already factored in the current price. The stock is currently trading at a premium valuation to HCL Tech.

Projected financials

y/e Mar (Rs mn)	FY06	FY07	FY08	FY09E	FY09E
Revenues	3,625	5,425	6,741	8,738	1,0934
yoy growth (%)	41.0	49.7	24.3	29.6	25.1
EBITDA	658	1135	1220	1560	1913
EBITDA margin (%)	18.1	20.9	18.1	17.8	17.5
PAT	503	837	856	1069	1221
Pre-exceptional PAT	503	837	856	1069	1221
yoy growth (%)	83.8	66.2	2.3	24.9	14.2
EPS (Rs)	11.0	18.1	15.7	19.6	22.4
P/E (x)	25.7	15.6	17.9	14.4	12.6
P/BV (x)	6.1	4.4	2.2	1.9	1.9
EV/EBITDA (x)	18.7	10.8	9.4	7.3	7.3
ROE (%)	23.7	28.5	12.8	13.9	13.9
ROCE (%)	23.2	29.7	15.5	16.7	17.4