

## In line show marred by heightened expectations

July 12, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 2,794	Rs 3,250
EPS change FY12E/13E (%)	(0.7)/(0.6)
Target Price change (%)	NA
Sensex	18,412
Nifty	5,526

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	(14)	(16)	(3)
Rel. to Nifty	(3)	(10)	(13)	(6)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	IT Services
Bloomberg	INFO@IN
Equity Capital (Rs mn)	2871
Face Value(Rs)	5
No of shares o/s (mn)	574
52 Week H/L	3,494/2,639
Market Cap (Rs bn/USD mn)	1,604/35,890
Daily Avg Volume (No of sh)	318670
Daily Avg Turnover (US\$m)	20.9

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	16.0	16.0	16.0
FII/NRI	52.4	54.6	55.7
Institutions	9.8	9.0	8.4
Private Corp	7.8	6.7	6.0
Public	13.9	13.7	13.8

Source: Capitaline

### Manik Taneja

manik.taneja@emkayglobal.com

+91 22 6612 1253

### Priya Gajwani

priya.gajwani@emkayglobal.com

+91 22 6612 1385

- Infy reported marginally lower than expected operating performance (4.3% QoQ US\$ rev growth with a 300 bps QoQ decline) with profit beat driven by higher other income
- Opmetrics performance mixed with top 5/10 clients growing by ~7.7/5.6% QoQ while Europe up by ~0.5% QoQ despite cross currency aid as Telecom continues to drag(-7% QoQ)
- FY12 rev guidance unchanged at 18-20% YoY while INR EPS outlook raised to ~Rs 128-130 along expected lines. Sep'11 outlook disappointing at +3.5-5% QoQ given historical record
- Tweak FY12/13E EPS down by 0.7/0.6% to ~ Rs 138/164, ACCUMULATE with an unchanged TP of Rs 3,250. Macro uncertainty plus INR appreciation remain downside risks

### An inline show isn't good enough given 'beat and raise' history at Infy

Infy reported a 4.3% QoQ US\$ rev growth to US\$ 1,671 mn (lower than Emkay est of US\$ 1,677 mn) with op mgns at 29.1%, -300 bps QoQ, higher than est (impacted by ~100 bps QoQ impact from higher provisioning for doubtful debts and post sales support). Profits at Rs 17.2 bn was in line despite lower op performance helped by higher other income. While rev from US were up by ~5.1% QoQ, rev from Europe were down by ~2.6% QoQ in c.c terms, impacted by further ramp downs in a telco account that has continued to drag performance over several quarters now. While rev from top client was flat QoQ, top 2-5 clients were up by ~11% QoQ. Co. hired ~ 2,740 people during the qtr taking total HC to 133,560 while FY12 gross hiring target remains unchanged at 45k for now.

We are a tad disappointed that Infy left its FY12 rev growth guidance unchanged at 18-20% YoY (expected marginal increase to 19-21% YoY), although INR EPS outlook was raised to Rs 128-130 (V/s Rs 126-128 earlier) as co now expects a 250 bps YoY decline in mgns in FY12 (V/s 300 bps drop expected in April'11). **Given Infy's track of 'beat and raise' an inline quarter on the back of the sharp disappointment in March'11 and the negative global news flow do little to inspire investor confidence.**

### Infy's execution has raised doubts, but expect co to get it's act together

While peers TCS and Cognizant have come out firing all cylinders post the economic downturn in late CY08/early CY09, Infy appears to be struggling in the form of (1) higher attrition and absence of sufficient bench (*has resulted in inability to staff projects timely in some a/cs*), (2) internal reorgs (*though co believes that they have had minimal impact*) and (3) hit by ramp downs in some key client a/cs (*which has dragged cowide rev performance for several quarters*). We believe that Infy is already middle of course correction by building in bench and **has meaningful levers in the form of (1) higher utilization (note that utilization ex trainees in Q1FY12 is down by ~800 bps in the last 3 quarters and lowest since Dec'09 qtr) and (2) broadening of employee pyramid (note that % of <3 yrs exp workforce is already at historical lows of 39%)**.

### Retain ACCUMULATE with an unchanged TP of Rs 3,250

We tweak our FY12/13E EPS lower by ~0.7/0.6% to Rs 137.5/163.7 driven by marginal resets in US\$ rev estimates (we build in a 22/19%YoY US\$ revenue growth V/s 23/18% earlier) and retain ACCUMULATE with an unchanged TP of Rs 3,250. In our view, Infy's 20% underperformance V/s TCS in past 6 months factors in most of the challenges that co has faced recently and remain positive as we see improvement ahead.

### Financial Snapshot

	Rs Mn								
Y/E March (in Rs mn)	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E(x)	EV/ EBITDA	P/B (x)
FY10	227,426	78,616	34.6	62,666	109.2	30.3	25.6	19.0	7.0
FY11	275,010	89,640	32.6	68,250	119.5	27.1	23.4	16.0	5.8
FY12E	330,226	102,409	31.0	78,935	137.5	26.4	20.3	13.7	4.9
FY13E	392,228	121,805	31.1	93,972	163.7	26.5	17.1	11.1	4.2

## Key Financials – Quarterly

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
<b>Revenue</b>	<b>61,980</b>	<b>69,470</b>	<b>71,060</b>	<b>72,500</b>	<b>74,850</b>	<b>20.8</b>	<b>3.2</b>	<b>74,850</b>	<b>61,980</b>	<b>20.8</b>
<b>Operating Expenditure</b>	<b>42,360</b>	<b>46,320</b>	<b>47,430</b>	<b>49,260</b>	<b>53,100</b>	<b>25.4</b>	<b>7.8</b>	<b>53,100</b>	<b>42,360</b>	<b>25.4</b>
Cost of revenues	34,410	37,540	38,470	40,120	43,540	26.5	8.5	43,540	34,410	26.5
as % of sales	55.5	54.0	54.1	55.3	58.2			58.2	55.5	
SG&A expenses	7,950	8,780	8,960	9,140	9,560	20.3	4.6	9,560	7,950	20.3
as % of sales	12.8	12.6	12.6	12.6	12.8			12.8	12.8	
<b>EBITDA</b>	<b>19,620</b>	<b>23,150</b>	<b>23,630</b>	<b>23,240</b>	<b>21,750</b>	<b>10.9</b>	<b>(6.4)</b>	<b>21,750</b>	<b>19,620</b>	<b>10.9</b>
Depreciation	2,050	2,170	2,160	2,220	2,230	8.8	0.5	2,230	2,050	8.8
<b>EBIT</b>	<b>17,570</b>	<b>20,980</b>	<b>21,470</b>	<b>21,020</b>	<b>19,520</b>	<b>11.1</b>	<b>(7.1)</b>	<b>19,520</b>	<b>17,570</b>	<b>11.1</b>
Other Income	2,390	2,670	2,900	4,150	4,430			4,430	2,390	85.4
<b>PBT</b>	<b>19,960</b>	<b>23,650</b>	<b>24,370</b>	<b>25,170</b>	<b>23,950</b>	<b>20.0</b>	<b>(4.8)</b>	<b>23,950</b>	<b>19,960</b>	<b>20.0</b>
Total Tax	5,060	6,280	6,570	6,990	6,730	33.0	(3.7)	6,730	5,060	33.0
<b>Adjusted PAT</b>	<b>14,900</b>	<b>17,370</b>	<b>17,800</b>	<b>18,180</b>	<b>17,220</b>	<b>15.6</b>	<b>(5.3)</b>	<b>17,220</b>	<b>14,900</b>	<b>15.6</b>
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
<b>APAT after MI</b>	<b>14,900</b>	<b>17,370</b>	<b>17,800</b>	<b>18,180</b>	<b>17,220</b>	<b>15.6</b>	<b>(5.3)</b>	<b>17,220</b>	<b>14,900</b>	<b>15.6</b>
<b>Extra ordinary items</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>			<b>0</b>	<b>0</b>	
<b>Reported PAT</b>	<b>14,900</b>	<b>17,370</b>	<b>17,800</b>	<b>18,180</b>	<b>17,220</b>	<b>15.6</b>	<b>(5.3)</b>	<b>17,220</b>	<b>14,900</b>	<b>15.6</b>
<b>Reported EPS</b>	<b>26.1</b>	<b>30.4</b>	<b>31.2</b>	<b>31.8</b>	<b>30.1</b>	<b>15.6</b>	<b>(5.3)</b>	<b>30.1</b>	<b>26.1</b>	<b>15.6</b>

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	31.7	33.3	33.3	32.1	29.1	(260)	(300)	29.1	31.7	(260)	
EBIT	28.3	30.2	30.2	29.0	26.1	(227)	(291)	26.1	28.3	(227)	
EBT	32.2	34.0	34.3	34.7	32.0	(21)	(272)	32.0	32.2	(21)	
PAT	24.0	25.0	25.0	25.1	23.0	(103)	(207)	23.0	24.0	(103)	
Effective Tax rate	25.4	26.6	27.0	27.8	28.1	275.0	32.9	28.1	25.4	275	

Source: Company, Emkay Research

## Guidance Analysis

Revenues	June'11	Sep'11E	Dec'11E	March'12E	FY12E
Lower end	1671	1730	1818	1911	7130
<b>QoQ growth</b>		<b>3.5%</b>	<b>5.1%</b>	<b>5.1%</b>	
Upper end	1671	1755	1858	1966	7250
<b>QoQ growth</b>		<b>5.0%</b>	<b>5.8%</b>	<b>5.8%</b>	

Source: Company, Emkay Research

Infosys has tended to guide conservatively on margins over the past as well

( All fig in bps)	FY09	FY10	FY11	FY12E
Change in margins guided at the start of year	-100	-300	-150	-300/250*
Actual Change in margins	186	93	-112	???

\* Infy now expects a 250 bps YoY decline in margins V/s 300 bps at FY12 start

Source: Company, Emkay Research

## Operational performance at a glance

	Q1FY12 (% Contri to Rev)	% QoQ	% YoY
<b>Revenue breakup-Geography</b>			
North America	64.2%	5.1%	17.4%
Europe	21.3%	0.5%	29.1%
India	2.6%	0.4%	88.2%
ROW	11.9%	7.9%	36.8%
<b>Revenue by industry groups</b>			
<b>FSI (Financial Services and Insurance)</b>			
Banking & financial services	28.1%	2.8%	24.8%
Insurance	7.3%	5.8%	6.9%
<b>Manufacturing</b>			
20.3%	3.8%	28.2%	
<b>RCL (Retail, Logistics, CPG and Life Sciences)</b>			
Retail & CPG	16.1%	15.8%	50.6%
Transport & Logistics	1.8%	-10.6%	19.7%
Life Sciences	3.7%	4.3%	35.1%
Healthcare	1.1%	4.3%	36.5%
<b>ECS (Energy &amp; Utilities, Communications and Services)</b>			
Energy & Utilities	5.7%	2.5%	16.0%
Communication and Services	10.6%	-7.1%	-7.8%
Others	5.3%	15.2%	34.1%
<b>Revenue by service offerings</b>			
<b>Business Operations</b>			
Application Development	16.1%	5.0%	17.2%
Application Maintenance	22.3%	5.7%	14.8%
Infrastructure Management Services	5.9%	0.9%	5.2%
Testing Services	7.5%	7.2%	26.4%
Business Process Management	5.4%	0.6%	16.6%
Others	2.8%	-2.6%	32.5%
<b>Consulting &amp; Systems Integration</b>			
Consulting & Package Implementation	25.2%	3.5%	24.0%
Systems Integration	6.3%	7.7%	80.3%
Others	0.2%	-30.5%	146.1%
<b>Products, Platforms and Solutions</b>			
Products	4.8%	-7.3%	25.7%
Product Engineering Services	3.2%	39.1%	87.5%
Others	0.3%	-21.8%	-26.2%
<b>Client concentration</b>			
Top Client	4.5%	-0.1%	13.0%
Top 5 Clients	15.9%	7.7%	27.0%
Top 10 Clients	25.2%	5.6%	18.8%
Non Top 10 Clients	74.8%	3.9%	24.5%
	Q1 FY12	Q4 FY11	Q1 FY11
<b>Onsite-Offshore Effort Split</b>			
Onsite	30.7%	29.8%	28.6%
Offshore	69.7%	70.2%	71.4%
<b>Utilization measures (IT Services and Consulting)</b>			
Including trainees	67.4%	65.6%	71.9%
Excluding trainees	73.3%	73.4%	78.0%
<b>Revenue by Project Type</b>			
Fixed Price	39.1%	41.0%	39.0%
T & M	60.9%	59.0%	61.0%

Source: Company, Emkay Research

While North America growth was reasonable, revenues from Europe were down by ~2.6% in c.c terms impacted by further ramp downs in a key European telco account

Fin Services seeing good traction in US and Asia Pac

While top client revenues were flat QoQ, top 2-5 client revenues grew impressively by ~11% QoQ

Utilization (ex trainees) has fallen sharply by ~800 bps over the past 3 quarters and will be a big margin lever ahead

**Change in estimates**

*Tweak FY12/13E EPS lower by ~0.7/0.6% to Rs 137.5/163.7 driven by marginal resets in US\$ rev estimates (building in a 22/19% YoY US\$ revenue growth V/s 23/18% earlier)*

(All fig in Rs mn except EPS)	FY12E			FY13E		
	Old	New	% change	Old	New	% change
Revenues(US\$ mn)	7,414	7,346	-0.9%	8,720	8,716	0.0%
Revenues	333,639	330,226	-1.0%	392,407	392,228	0.0%
EBITDA	104,767	102,409	-2.3%	121,338	121,805	0.4%
Net profits	79,497	78,935	-0.7%	94,537	93,972	-0.6%
EPS	138.5	137.5	-0.7%	164.7	163.7	-0.6%

*Source: Emkay Research*

## Financials

## Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	227,426	275,010	330,226	392,228
Growth (%)		20.9	20.1	18.8
<b>Total Expenditure</b>	(148,810)	(185,370)	(227,818)	(270,424)
Growth (%)		24.6	22.9	18.7
<b>EBIDTA</b>	78,616	89,640	102,409	121,805
Growth (%)		14.0	14.2	18.9
<b>EBIDTA %</b>	34.6	32.6	31.0	31.1
Other Income	-	-	-	-
Depreciation	(9,050)	(8,600)	(9,394)	(10,434)
<b>EBIT</b>	<b>69,566</b>	<b>81,040</b>	<b>93,015</b>	<b>111,371</b>
Interest				
<b>EBT</b>	<b>69,566</b>	<b>81,040</b>	<b>93,015</b>	<b>111,371</b>
Tax	(16,810)	(24,900)	(29,556)	(34,757)
<b>EAT</b>	<b>62,666</b>	<b>68,250</b>	<b>78,935</b>	<b>93,972</b>
Growth (%)		8.9	15.7	19.0
EAT (%)	27.6	24.8	23.9	24.0

## Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	2,860	2,860	2,860	2,860
Reserves & surplus	227,630	270,170	321,760	382,751
Minority Interest	-	-	-	-
<b>Networth</b>	<b>230,490</b>	<b>273,030</b>	<b>324,620</b>	<b>385,610</b>
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
<b>Loan Funds</b>	-	-	-	-
Deferred Tax Liabilities	2,320	0	0	0
<b>Total Liabilities</b>	<b>232,810</b>	<b>273,030</b>	<b>324,620</b>	<b>385,610</b>
Goodwill				
Gross Block	78,390	89,710	109,710	125,710
Less: Depreciation	28,930	32,540	41,934	52,368
<b>Net block</b>	<b>49,460</b>	<b>57,170</b>	<b>67,776</b>	<b>73,342</b>
<b>Capital WIP</b>	<b>4,090</b>	-	-	-
<b>Investment</b>	<b>37,120</b>	<b>1,670</b>	<b>1,670</b>	<b>1,670</b>
<b>Current Assets</b>	<b>182,370</b>	<b>250,010</b>	<b>302,059</b>	<b>366,996</b>
Inventories	-	-	-	-
Sundry debtors	34,940	46,530	56,093	66,625
Cash & bank balance	105,560	166,660	202,539	246,641
Loans & advances	41,870	36,820	43,427	53,730
Other current assets	-	-	-	-
<b>Current Liab &amp; Prov</b>	<b>44,550</b>	<b>39,600</b>	<b>50,665</b>	<b>60,178</b>
Current liabilities	23,430	34,130	41,618	49,432
Provisions	21,120	5,470	9,047	10,746
<b>Net current assets</b>	<b>137,820</b>	<b>210,410</b>	<b>251,394</b>	<b>306,819</b>
<b>Misc exps</b>	-	-	-	-
<b>Deferred Tax</b>	<b>4,320</b>	<b>3,780</b>	<b>3,780</b>	<b>3,780</b>
<b>Total Assets</b>	<b>232,810</b>	<b>273,030</b>	<b>324,620</b>	<b>385,611</b>

## Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Profit after Tax	62,666	68,250	78,935	93,972
Add : Depreciation	9,050	8,600	9,394	10,434
Add : Misc exp w/off				
<b>Net changes in WC</b>	<b>(5,830)</b>	<b>4,950</b>	<b>(11,065)</b>	<b>(9,513)</b>
<b>Operational Cash Flows</b>	<b>61,650</b>	<b>63,580</b>	<b>83,224</b>	<b>93,084</b>
<b>Capital expenditure</b>	<b>(9,060)</b>	<b>(12,220)</b>	<b>(20,000)</b>	<b>(16,000)</b>
Investments	-	35,450	-	-
<b>Investing Cash Flows</b>	<b>(9,060)</b>	<b>23,230</b>	<b>(20,000)</b>	<b>(16,000)</b>
<b>Borrowings</b>	-	-	-	-
dividend paid	(16,740)	(23,954)	(27,704)	(32,981)
Issue of shares	1,020	550	(0)	(0)
Share Premium	540	(470)	-	-
<b>Financing Cash Flows</b>	<b>(44,370)</b>	<b>(23,861)</b>	<b>(28,174)</b>	<b>(32,981)</b>
changes in cash	<b>8,220</b>	<b>62,949</b>	<b>35,050</b>	<b>44,102</b>
Opening balance	<b>96,950</b>	<b>105,560</b>	<b>166,660</b>	<b>202,539</b>
<b>Closing balance</b>	<b>105,560</b>	<b>166,660</b>	<b>202,539</b>	<b>246,641</b>

## Key ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
EPS (Rs)	109.2	119.5	137.5	163.7
CEPS (Rs)	125.0	134.5	153.9	181.9
Book Value Per Share (Rs)	401.8	477.9	565.5	671.8
Dividend Per Share (Rs)	25.0	35.8	41.3	49.1
<b>Valuations Ratios (x)</b>				
PER	25.6	23.4	20.3	17.1
P/CEPS	25.6	23.8	20.8	17.6
P/BV	7.0	5.8	4.9	4.2
EV/EBIDTA	19.0	16.0	13.7	11.1
EV/Sales	6.6	5.2	4.2	3.5
M-Cap/sales	7.0	5.8	4.8	4.1
<b>Profitability Ratios (%)</b>				
RoCE	33.5	32.0	31.1	31.4
RoNW	30.3	27.1	26.4	26.5
EBITDA Margin	34.6	32.6	31.0	31.1
EBIT Margins	30.6	29.5	28.2	28.4
Net Profit Margin	27.6	24.8	23.9	24.0

**Recommendation History: Infosys Technologies – INFO IN**

Date	Reports	Reco	CMP	Target
15/04/2011	<a href="#">Infosys Technologies Q4FY11 Result Update</a>	Accumulate	2,989	3,250
13/01/2011	<a href="#">Infosys Technologies Q3FY11 Result Update</a>	Accumulate	3,205	3,400
15/10/2010	<a href="#">Infosys Technologies Q2FY11 Result Update</a>	Accumulate	3,080	3,300
13/07/2010	<a href="#">Infosys Technologies Q1FY11 Result Update</a>	Accumulate	2,795	3,200

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
03/06/2011	<a href="#">Persistent Systems Initiating Coverage</a>	Accumulate	386	450
27/05/2011	<a href="#">Mphasis Q2April'11 Result Update</a>	Reduce	470	400
26/05/2011	<a href="#">Tech Mahindra Q4FY11 Result Update</a>	Accumulate	659	730
23/05/2011	<a href="#">Mahindra Satyam Q4FY11 Result Update</a>	Hold	74	76

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.