Cognizant CTSH.OQ CTSH US

SOFTWARE & SERVICES

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Guidance raised, but street demands higher

Upside limited on moderation in growth differential & valuation premium vs peers

November 3, 2011

Rating Remains	Neutral
Target price Increased from 68.00	USD 75.00
Closing price November 1, 2011	USD 70.92
Potential upside	+5.8%

Action: Wait for better entry point; Maintain Neutral

CTSH 3Q was ahead of expectations, but street likely to be disappointed on 4Q revenue growth guidance of 3.7% q-q, being below that of INFO, which has lagged on growth and been less upbeat on the outlook. We believe the street will question the ~20% premium that Cognizant trades at over its peers. We are confident that Cognizant's outperformance vs peers in 3Q and positive outlook on demand should lead to sustainability of revenue growth outperformance in FY12F. However, we would wait for street valuation expectations to be reset lower, before arguing for a Buy on the stock. Maintain Neutral. We prefer INFO and HCLT.

Catalyst: Strong FY12 revenue growth guidance

We expect peers to outperform CTSH in 4Q

We expect comparable revenue growth, better margin progression and better earnings growth at peers in 4Q, given greater benefits from rupee depreciation vs CTSH. Cognizant commentary suggests no incremental margin benefits in 4Q despite ~8% INR depreciation vs USD in 4Q to date.

Valuation: Raise TP to US$72 on roll forward, EPS marginally upped

We have raised our EPS estimates marginally by 1-2% over FY11/12F. We expect a US$ revenue CAGR of 26%, flattish EBIT margins and an EPS CAGR of 18% over FY10-12F. We maintain Neutral, raising TP to US$75 (from US$68) based on 20x 1yr rolling forward earnings. This is based on a premium of 10% to our target multiple for Infosys/TCS, lower than historical premium of 20%, on expectations of reducing revenue growth outperformance over peers.

31 Dec	FY10	FY11F		FY12F		FY13F	
Currency (USD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	4,592	6,089	6,134	7,094	7,233	8,547	8,679
Reported net profit (mn)	734	875	884	1,021	1,035	1,203	1,215
Normalised net profit (mn)	734	875	884	1,021	1,035	1,203	1,215
Normalised EPS	2.44	2.88	2.91	3.34	3.41	3.92	3.98
Norm. EPS growth (%)	33.7	18.0	19.5	16.2	16.9	17.4	16.9
Norm. P/E (x)	30.7	N/A	25.6	N/A	21.9	N/A	18.6
EV/EBITDA (x)	20.6	13.2	15.7	11.0	12.8	8.8	10.5
Price/book (x)	6.1	N/A	5.0	N/A	4.0	N/A	3.3
Dividend yield (%)	na	N/A	na	N/A	na	N/A	na
ROE (%)	23.5	21.9	22.1	20.7	20.9	19.9	20.0
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Nomura estimates

Key company data: *See page 2 for company data and detailed price/index chart.*

Anchor themes

We believe it prudent to participate in the sector through companies focused on market-share gains, with low client concentration and better operating scope in the current uncertain economic environment.

Nomura vs consensus

Our TP is around 9% lower than Bloomberg consensus on expectations of a moderation of valuation premium as growth outperformance narrows and growth moderates.

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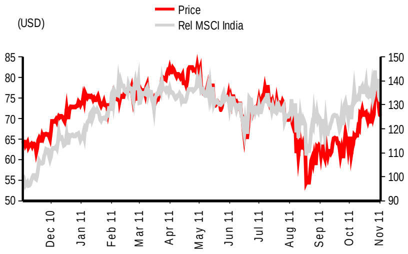
Key data on Cognizant

Income statement (USDmn)

Year-end 31 Dec	FY09	FY10	FY11F	FY12F	FY13F
Revenue	**3,279**	**4,592**	**6,134**	**7,233**	**8,679**
Cost of goods sold	-1,906	-2,725	-3,611	-4,259	-5,131
Gross profit	**1,373**	**1,868**	**2,523**	**2,974**	**3,548**
SG&A	-709	-949	-1,297	-1,538	-1,859
Employee share expense	-46	-57	-89	-101	-122
Operating profit	**618**	**862**	**1,137**	**1,335**	**1,567**
EBITDA	**708**	**966**	**1,254**	**1,486**	**1,749**
Depreciation	-89	-104	-117	-152	-182
Amortisation					
EBIT	618	862	1,137	1,335	1,567
Net interest expense	16	26	38	45	53
Associates & JCEs					
Other income	3	-9	-11	0	0
Earnings before tax	**637**	**879**	**1,165**	**1,380**	**1,620**
Income tax	-102	-145	-281	-345	-405
Net profit after tax	**535**	**734**	**884**	**1,035**	**1,215**
Minority interests					
Other items					
Preferred dividends					
Normalised NPAT	**535**	**734**	**884**	**1,035**	**1,215**
Extraordinary items					
Reported NPAT	**535**	**734**	**884**	**1,035**	**1,215**
Dividends	0	0	0	0	0
Transfer to reserves	**535**	**734**	**884**	**1,035**	**1,215**
Valuation and ratio analysis					
FD normalised P/E (x)	40.9	30.7	25.6	21.9	18.6
FD normalised P/E at price target (x)	38.3	28.7	23.9	20.4	17.4
Reported P/E (x)	39.9	29.8	25.0	21.4	18.3
Dividend yield (%)	na	na	na	na	na
Price/cashflow (x)	35.3	33.8	46.9	26.5	22.5
Price/book (x)	8.0	6.1	5.0	4.0	3.3
EV/EBITDA (x)	29.3	20.6	15.7	12.8	10.5
EV/EBIT (x)	33.5	23.1	17.3	14.3	11.7
Gross margin (%)	41.9	40.7	41.1	41.1	40.9
EBITDA margin (%)	21.6	21.0	20.4	20.6	20.2
EBIT margin (%)	18.9	18.8	18.5	18.5	18.1
Net margin (%)	16.3	16.0	14.4	14.3	14.0
Effective tax rate (%)	16.0	16.5	24.1	25.0	25.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Capex to sales (%)	3.5	4.2	4.1	4.0	3.3
Capex to depreciation (x)	1.3	1.9	2.1	1.9	1.6
ROE (%)	23.2	23.5	22.1	20.9	20.0
ROA (pretax %)	34.8	40.1	40.6	37.8	37.6
Growth (%)					
Revenue	16.4	40.1	33.6	17.9	20.0
EBITDA	19.7	36.4	29.8	18.6	17.7
EBIT	19.7	39.3	31.9	17.4	17.4
Normalised EPS	22.8	33.7	19.5	16.9	16.9
Normalised FDEPS	23.3	33.6	19.8	17.0	17.4
Per share					
Reported EPS (USD)	1.82	2.44	2.91	3.41	3.98
Norm EPS (USD)	1.82	2.44	2.91	3.41	3.98
Fully diluted norm EPS (USD)	1.78	2.37	2.84	3.33	3.91
Book value per share (USD)	9.05	11.92	14.58	17.99	21.90
DPS (USD)	0.00	0.00	0.00	0.00	0.00

Source: Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (USD)	16.0	4.3	8.3
Absolute (USD)	16.0	4.3	8.3
Relative to index	8.2	6.6	21.8
Market cap (USDmn)	22,131.6		
Estimated free float (%)	99.0		
52-week range (USD)	83.48/53.54		
3-mth avg daily turnover (USDmn)	242.78		
Major shareholders (%)			
Fidelity	8.4		
Waddell & Reed Financial	5.0		

Source: Thomson Reuters, Nomura research

Notes

We look for revenue growth of 33.6% in FY11F and 17.9% in FY12F.

Cashflow (USDmn)

Year-end 31 Dec	FY09	FY10	FY11F	FY12F	FY13F
EBITDA	708	966	1,254	1,486	1,749
Change in working capital	56	-99	-131	-3	-94
Other operating cashflow	-144	-200	-640	-628	-649
Cashflow from operations	**620**	**666**	**483**	**855**	**1,006**
Capital expenditure	-116	-193	-250	-290	-290
Free cashflow	**504**	**473**	**232**	**565**	**716**
Reduction in investments	3	151	0	0	0
Net acquisitions					
Reduction in other LT assets	-59	-41	-83	0	0
Addition in other LT liabilities	0	0	0	0	0
Adjustments					
Cashflow after investing acts	**449**	**583**	**150**	**565**	**716**
Cash dividends	0	0	0	0	0
Equity issue	170	227	11	7	1
Debt issue					
Convertible debt issue					
Others	18	17	28	45	53
Cashflow from financial acts	**188**	**244**	**39**	**52**	**54**
Net cashflow	**637**	**827**	**189**	**617**	**770**
Beginning cash	763	1,399	2,226	2,415	3,033
Ending cash	1,399	2,226	2,415	3,033	3,803
Ending net debt	-1,399	-2,226	-2,415	-3,033	-3,803

Source: Nomura estimates

Notes

Steady increase in cashflow from operations

Balance sheet (USDmn)

As at 31 Dec	FY09	FY10	FY11F	FY12F	FY13F
Cash & equivalents	1,399	2,226	2,415	3,033	3,803
Marketable securities	0	0	0	0	0
Accounts receivable	709	1,014	1,341	1,519	1,849
Inventories	0	0	0	0	0
Other current assets	199	278	260	232	269
Total current assets	**2,308**	**3,518**	**4,016**	**4,784**	**5,921**
LT investments	151	0	0	0	0
Fixed assets	482	570	704	842	950
Goodwill	192	224	289	289	289
Other intangible assets	76	85	103	103	103
Other LT assets	130	185	544	828	1,072
Total assets	**3,338**	**4,583**	**5,656**	**6,846**	**8,335**
Short-term debt					
Accounts payable	55	75	101	114	139
Other current liabilities	592	855	1,008	1,142	1,390
Total current liabilities	**647**	**931**	**1,109**	**1,256**	**1,528**
Long-term debt					
Convertible debt					
Other LT liabilities	38	68	124	124	124
Total liabilities	**685**	**999**	**1,232**	**1,380**	**1,652**
Minority interest					
Preferred stock	0	0	0	0	0
Common stock	668	850	850	850	850
Retained earnings	1,965	2,699	3,583	4,618	5,833
Proposed dividends					
Other equity and reserves	20	36	-9	-2	0
Total shareholders' equity	**2,653**	**3,584**	**4,424**	**5,466**	**6,682**
Total equity & liabilities	**3,338**	**4,583**	**5,656**	**6,846**	**8,335**
Liquidity (x)					
Current ratio	3.57	3.78	3.62	3.81	3.87
Interest cover	na	na	na	na	na
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	71.7	68.5	70.1	72.4	70.8
Days inventory	0.0	0.0	0.0	0.0	0.0
Days payable	9.1	8.7	8.9	9.2	9.0
Cash cycle	62.7	59.8	61.2	63.2	61.9

Source: Nomura estimates

Notes

Cash levels are increasing

Revenue beat vs Tier 1 IT peers

Cognizant delivered 7.8% q-q revenue growth in 3QFY11 – which was above our expectation of 6.5% and consensus of 6.2%. For the last 2 quarters, Cognizant has outperformed its peers in the tier 1 IT space in terms of sequential revenue growth. Tier 1 IT peers grew at 4.1-4.7% q-q in 3Q.

Cognizant did not register any gains from rupee depreciation on margins, which came in line with our expectations and flat sequentially at 18.3%. This contrasts with Infosys and TCS which saw 90-210bp improvement in margins. Results were ahead of estimates on GAAP EPS (US$0.73 vs our expectation of US$0.72 and consensus of US$0.71).

Cognizant results were similar with the trends seen at tier 1 peers; and corroborate our view that FY11 IT spending is on track. We are cautious, however, on FY12 IT spending as short-term decision making and macro uncertainties could lead to clients being conservative on FY12 budgets.

Growth was broad-based in 3Q, with Financial services (7% q-q) and Healthcare (11% q-q) contributing the most.

Guidance raised but street demands higher

Cognizant increased its revenue growth guidance for FY11 to 33% (from 32% earlier) largely incorporating the guidance beat in 3Q. The key disappointment in the guidance was the reduction in 4Q revenue growth guidance from 4% to 3.7% q-q, with management also indicating that the guidance was not conservative on account of the troubled macro. Cognizant's guidance on an organic basis (3.1% q-q) is lower than Infosys' guidance of 3.2-5.4% and in line with Wipro at 2-4% q-q, despite lagging growth and less upbeat commentary at the latter.

Management does not expect to see a budget flush in 4Q as seen in previous years, which they attributed as the reason for the guidance of 3.7% revenue growth.

Fig. 1: 4Q guidance comparison

4Q guidance of Infosys ahead of Cognizant in both revenue and EPS growth

4Q guidance	Infosys	Cognizant
Revenue growth (q-q %)	3.2-5.4	3.7
EPS growth (q-q %)	10-11	3.5

Source: Company data, Nomura research

Outlook still positive; no major warning bells yet

Key highlights of management commentary on demand from the earnings conference call:

- Clients are not slowing down on spending; FY12 budgets likely to be flat with an upward bias; pipeline is robust.
- Clients have been investing thoughtfully and persistently; have been shifting IT work towards global delivery model (GDM), savings generated from this used to for discretionary projects.
- More application maintenance work is getting shifted to the GDM while higher acceptance of offshore delivery will drive growth in BPO and infrastructure management services (IMS).
- BPO and IMS at an inflection point for the company, both grew at higher than company growth rates.
- Feedback from CIO's in Europe is that they may not increase discretionary spending but will maintain current levels.
- Current pipeline in consultancy balanced between new development projects and cost containment projects.

- Pricing outlook is stable with an upward bias; most of the pricing increases in FY11 so far had come in 1Q and 2Q. Pricing for FY11 is 4-5% y-y and management expects pricing increase of lower magnitude in FY12 compared to FY11.
- Cognizant is not seeing any major increase in regulatory related work in BFSI, although it has started consulting engagements with clients
- In Healthcare, the company has benefitted from regulatory work and was a large contributor of the 11% q-q growth for the vertical in 3Q.

We expect peers to outperform CTSH in 4Q

We expect comparable revenue growth, better margin progression and better earnings growth at peers in 4Q, given greater benefits from rupee depreciation vs CTSH.

Cognizant management has indicated that margins would remain at the higher end of the

19-20% band (non-GAAP EBIT margin) in 4Q.Given that 3Q non GAAP EPS margin were at 19.8%, this suggests to us that there would be no material margin benefits in 4Q despite a ~8% INR depreciation vs USD in 4Q until now.

Fig. 2: 4QF expectations

We assume USD/INR of 47.5 in 4Q. Potential upside to our estimates at Infosys and TCS if current rates sustain

Sequential growth	Infosys	TCS	Cognizant
US$ revenue (%)	4.8	3.5	4.7
Margin (bps)	150	120	10
EPS (%)	14.3	11.8	5.3

Source: Nomura estimates

Raising estimates marginally

We have slightly increased our FY11F revenue estimates on the back of the better than anticipated revenue growth in 3Q. Our FY12F and FY13F revenue estimates are marginally higher. We look for 33.6% revenue growth in FY11F and 17.9% in FY12F. We retain our margin estimates. Our tax rate assumptions are higher on the back of management guidance. Over FY10-12F, we expect Cognizant to grow revenue at a CAGR of 26%, post an EBIT margin decline of 30bps to 18.5% and show an EPS CAGR of 18%.

Fig. 3: Earnings revisions

	New			Old			Change (%)		
	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F
Revenue (US$ mn)	6,134	7,233	8,679	6,089	7,094	8,547	0.7	2.0	1.5
EBIT margin (%)	18.5	18.5	18.1	18.6	18.40	18.0	0 bp	0 bp	0 bp
Tax Rate (%)	24.1	25.0	25.0	25.4	24.5	24.5	-130 bp	50 bp	50 bp
Diluted EPS (US$)	2.84	3.33	3.91	2.80	3.26	3.84	1.4	2.1	1.7

Source: Nomura estimates

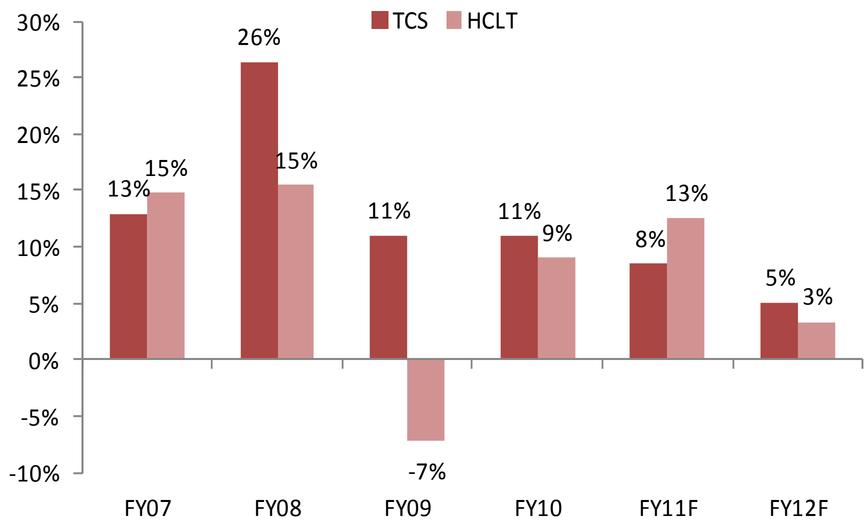
Maintain NEUTRAL; TP rises to US$75

Fundamentally, we like Cognizant's market share gain focus, investments for growth and stability on margins, but remain cautious given the risks on account of high BFSI/ client concentration exposure and premium valuations. Maintain Neutral. Our TP increases to US$75 (vs US$68 earlier) based on 20x 1yr rolling forward earnings. This is based on a premium of 10% to our target multiple for Infosys/TCS, lower than historical premium of 20%, on expectations of reducing revenue growth outperformance. We continue to maintain that Cognizant's valuation premiums over peers should not exceed 10% in a scenario where growth differentials are shrinking with regards to market-share-focused players like TCS/HCLT.

Revenue outperformance over peers likely to shrink

We continue to expect Cognizant to outperform its Indian IT peers on growth, but believe the gap with those (such as HCL Tech and TCS) that are more focused on market share gains will narrow over the next two years from double-digit levels to the low single digits. We believe a smaller presence in services lines like business process outsourcing (BPO), infrastructure management services (IMS) and enterprise application services (EAS), coupled with a smaller ROW presence, would lead to a smaller contribution to growth, compared to peers, even if Cognizant were to grow faster in these services or geographies. Cognizant's exposure to BPO/IMS and EAS could be in the order of 25% vs 37-50% at tier-1 Indian IT peers, in our view. Cognizant's ROW exposure is at sub 4% vs 15-22% for its peers.

Fig. 4: Revenue growth differentials between Cognizant and HCLT/TCS (y-y)



Note: For TCS and HCL Tech FY11F corresponds to FY12F (closest year end)

Source: Company data, Nomura estimates

Valuation methodology

We value Cognizant at 20x our one-year forward earnings per share estimate of USD3.74, which is at a 10% discount to its long-term average to reflect higher risk in the macro environment and risks related to higher BFSI exposure.

Risks to valuation

The key risks include: 1) a faster-than-anticipated demand slowdown; 2) breakage of pricing discipline in the industry; and 3) rupee appreciation.

3QFY11 result highlights

- Cash and investments totalled US$2.3bn at the end of 3Q.
- Days sales outstanding (DSO) was 73 in 3Q, compared to 75 in 2Q;
- Strategic clients increased by 6 to 185
- Attrition reduced t 13.4% from 15.2% in 2Q. This is quarterly annualized and is across all divisions

Fig. 5: Cognizant 3QFY11: Actual vs Expected

Key parameters	3QFY11		2QFY11	q-q (%)	3QFY10	y-y (%)
	Actual	Est.				
Revenues (US$ mn)	1,601	1,582	1,485	7.8	1,217	31.6
EBIT margin (%)	18.3	18.3	18.2	10bp	18.8	-50bp
PAT (US$ mn)	227	223	208	9.2	204	11.5
Diluted EPS (US$)	0.73	0.72	0.67	9.9	0.66	11.6

Source: Company data, Nomura research

Fig. 6: Quarterly performance and estimates

year-ending Dec	FY10				FY11F					
(US$ mn)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QF	FY10	FY11F
Revenues	**960**	**1,105**	**1,217**	**1,311**	**1,371**	**1,485**	**1,601**	**1,677**	**4,592**	**6,134**
q-q change (%)	*6.3*	*15.2*	*10.1*	*7.7*	*4.6*	*8.3*	*7.8*	*4.7*	*40.1*	*33.6*
Direct expenses	552	638	697	755	779	857	921	961	2,641	3,517
SG&A expenses	185	224	251	268	284	307	333	350	928	1,274
Stock comp. expense	14	14	14	15	16	24	25	25	57	89
Depreciation	26	24	26	28	27	28	30	32	104	117
EBIT	**183**	**206**	**228**	**245**	**265**	**270**	**293**	**308**	**862**	**1,137**
EBIT margin (%)	*19.1*	*18.6*	*18.8*	*18.7*	*19.4*	*18.2*	*18.3*	*18.4*	*18.8*	*18.5*
Other Income	-4	2	15	4	15	8	-5	10	17	28
PBT	179	208	243	249	281	278	288	319	879	1,165
Provision for Tax	27	36	40	42	72	70	61	78	145	281
tax rate (%)	*15.2*	*17.2*	*16.3*	*17.1*	*25.7*	*25.1*	*21.1*	*24.5*	*16.5*	*24.1*
PAT	**152**	**172**	**204**	**206**	**208**	**208**	**227**	**241**	**734**	**884**
q-q change (%)	*5.2*	*13.6*	*18.3*	*1.2*	*1.0*	*-0.1*	*9.2*	*5.9*	*37.1*	*20.5*
Diluted EPS (US$)	**0.49**	**0.56**	**0.66**	**0.66**	**0.67**	**0.67**	**0.73**	**0.77**	**2.37**	**2.84**

Source: Company data, Nomura estimates

Fig. 7: Sequential growth matrix

q-q growth (%)	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Verticals					
Financial Services	10.6	6.4	2.9	7.5	7.0
Healthcare	7.5	12.0	2.6	10.7	11.0
Manufacturing/Retail/Logistics	13.1	6.0	12.5	7.3	5.0
Other	9.3	6.1	3.0	7.7	7.0
Service lines					
App development	14.7	7.7	5.4	10.6	7.5
App maintenance	5.9	7.7	3.8	6.0	8.1
Geography					
North America	8.9	7.0	5.7	8.0	8.2
Europe	15.0	9.4	1.5	8.2	5.5
Other	13.4	14.0	-1.9	15.6	10.8

Source: Company data, Nomura research

Appendix A-1

Analyst Certification

We, Ashwin Mehta and Pinku Pappan, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Cognizant	CTSH US	USD 70.92	01-Nov-2011	Neutral	Not rated	123
HCL Technologies	HCLT IN	INR 438	02-Nov-2011	Buy	Not rated	
Infosys	INFO IN	INR 2834	02-Nov-2011	Buy	Not rated	123
Tata Consultancy Services	TCS IN	INR 1107	02-Nov-2011	Neutral	Not rated	

Disclosures required in the U.S.

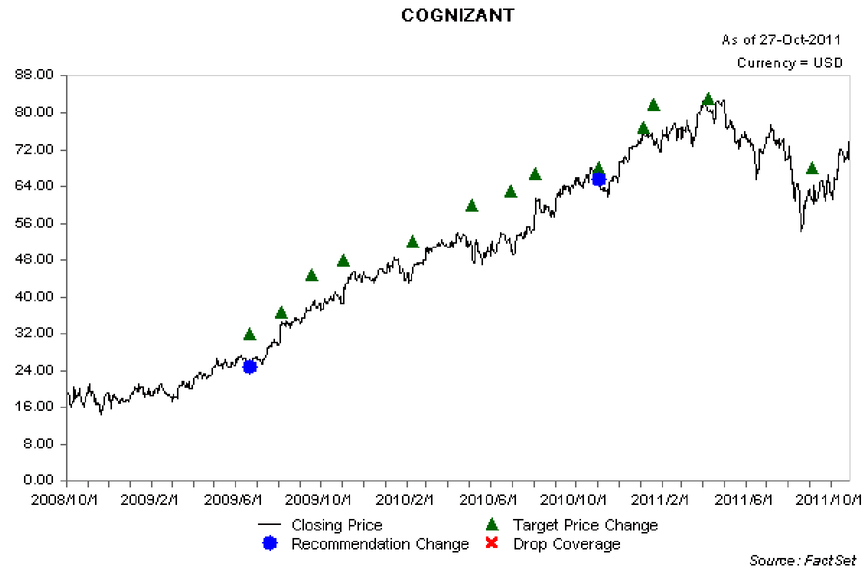
123 **Market Maker - NSI**
Nomura Securities International Inc. makes a market in securities of the company.

Previous Rating

Issuer name	Previous Rating	Date of change
Cognizant	Buy	02-Nov-2010
HCL Technologies	Neutral	10-Sep-2009
Infosys	Neutral	21-Jan-2011
Tata Consultancy Services	Buy	22-Dec-2009

Cognizant (CTSH US) **USD 70.92 (01-Nov-2011)** Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
05-Sep-2011		68.00	61.10
08-Apr-2011		83.00	80.26
21-Jan-2011		82.00	73.05
05-Jan-2011		77.00	76.19
02-Nov-2010		68.00	65.55
02-Nov-2010	Neutral		65.55
04-Aug-2010		67.00	61.57
29-Jun-2010		63.00	50.55
06-May-2010		60.00	48.75
10-Feb-2010		52.00	46.34
03-Nov-2009		48.00	41.97
18-Sep-2009		45.00	38.49
05-Aug-2009		36.75	34.59
22-Jun-2009		32.00	24.90
22-Jun-2009	Buy		24.90

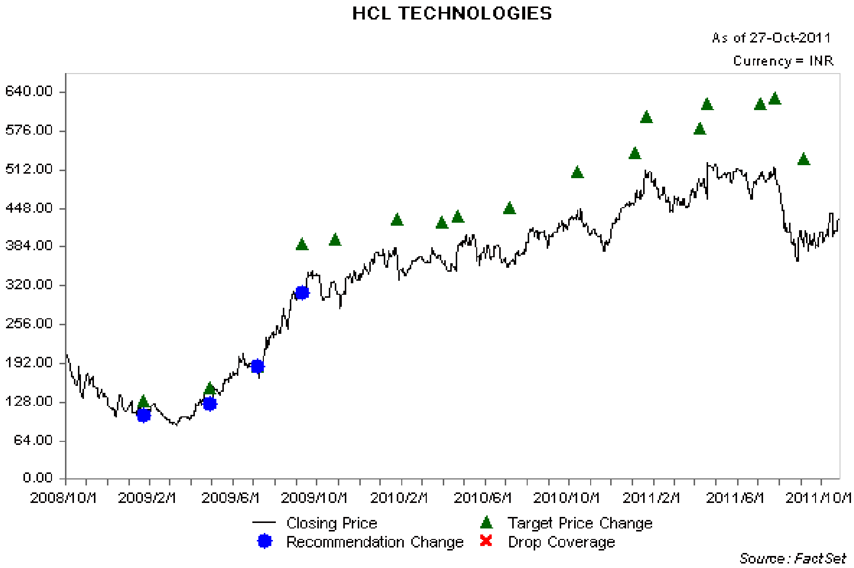
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Cognizant at 20x our one-year forward earnings per share estimate of USD3.74, which is at a 10% discount to its long-term average to reflect higher risk in the macro environment and risks related to higher BFSI exposure. Our target price is USD75.

Risks that may impede the achievement of the target price The key risks include: 1) a faster-than-anticipated demand slowdown; 2) breakage of pricing discipline in the industry; and 3) rupee appreciation.

HCL Technologies (HCLT IN) **INR 438 (02-Nov-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
05-Sep-2011		530.00	384.15
27-Jul-2011		630.00	502.85
05-Jul-2011		620.00	506.55
20-Apr-2011		620.00	522.85
08-Apr-2011		580.00	484.35
21-Jan-2011		600.00	499.20
05-Jan-2011		540.00	471.15
13-Oct-2010		510.00	444.40
07-Jul-2010		450.00	356.00
22-Apr-2010		435.00	380.80
31-Mar-2010		425.00	357.80
26-Jan-2010		430.00	361.15
28-Oct-2009		397.00	313.50
10-Sep-2009		389.00	309.10
10-Sep-2009	Buy		309.10
06-Jul-2009		187.00	186.90
06-Jul-2009	Neutral		186.90
28-Apr-2009		152.00	125.85
28-Apr-2009	Buy		125.85
23-Jan-2009		130.00	107.00
23-Jan-2009	Reduce		107.00

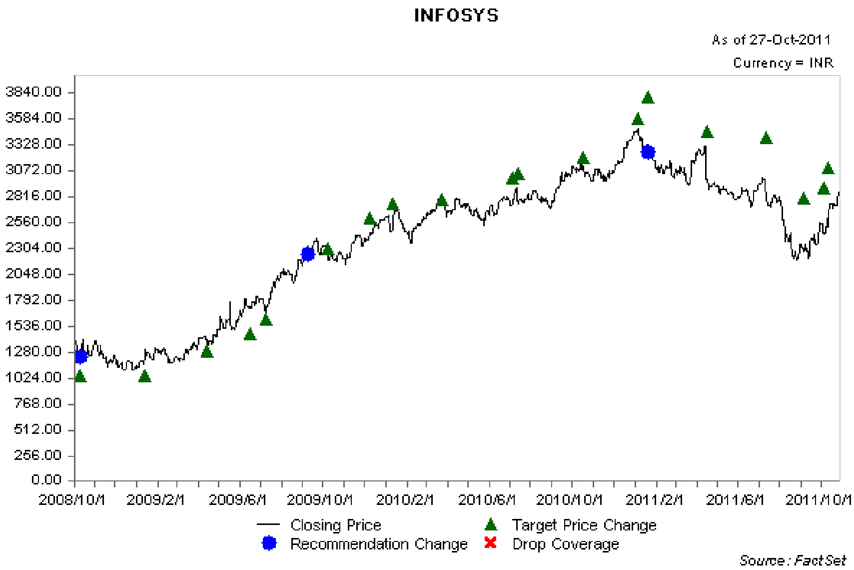
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of INR530 is based on 15x our FY13F earnings forecast of INR35.3, which is in line with its historical average valuation.

Risks that may impede the achievement of the target price The key risks are: 1) worse-than-expected slowdown and breakage of pricing discipline; 2) failure to exhibit stability in margins; 3) rupee appreciation; and 4) client-specific issues.

Infosys (INFO IN) **INR 2834 (02-Nov-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
12-Oct-2011		3100.00	2680.50
04-Oct-2011		2900.00	2440.70
05-Sep-2011		2800.00	2263.85
12-Jul-2011		3400.00	2794.25
17-Apr-2011		3450.00	2988.80
21-Jan-2011		3800.00	3248.75
21-Jan-2011	Buy		3248.75
05-Jan-2011		3580.00	3467.65
18-Oct-2010		3200.00	3107.00
14-Jul-2010		3040.00	2742.30
06-Jul-2010		3000.00	2786.50
25-Mar-2010		2780.00	2805.60
12-Jan-2010		2740.00	2587.45
09-Dec-2009		2600.00	2456.15
09-Oct-2009		2300.00	2178.35
10-Sep-2009		2271.00	2235.10
10-Sep-2009	Neutral		2235.10
10-Jul-2009		1598.00	1726.50
17-Jun-2009		1458.00	1710.50
15-Apr-2009		1283.00	1370.80
13-Jan-2009		1049.00	1230.20
10-Oct-2008		1042.00	1226.70
10-Oct-2008	Reduce		1226.70

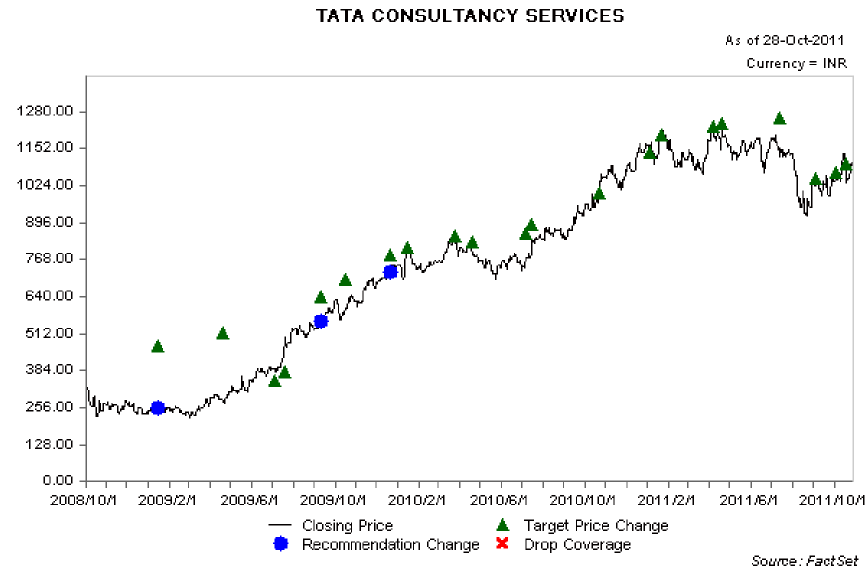
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Infosys at 18x one-year forward earnings of INR170, which is at a 10% discount to its long-term average valuation. We believe the discount is justified on heightened economic uncertainties, increased risk aversion and an impending slowdown. Our target price is INR3,100.

Risks that may impede the achievement of the target price The key risks are: 1) worse-than-expected slowdown and breakage of pricing discipline in the industry; 2) rupee appreciation; 3) client-specific issues; and 4) an adverse ruling in its pending B1 visa violation case in the US.

Tata Consultancy Services (TCS IN) **INR 1107 (02-Nov-2011)** Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
18-Oct-2011		1100.00	1033.50
04-Oct-2011		1070.00	1045.95
05-Sep-2011		1050.00	1027.80
14-Jul-2011		1260.00	1125.25
21-Apr-2011		1240.00	1191.65
08-Apr-2011		1230.00	1194.90
21-Jan-2011		1200.00	1212.60
05-Jan-2011		1140.00	1158.05
22-Oct-2010		1000.00	1040.10
16-Jul-2010		890.00	832.40
08-Jul-2010		860.00	776.60
20-Apr-2010		830.00	789.60
25-Mar-2010		850.00	829.30
15-Jan-2010		810.00	791.80
22-Dec-2009		785.00	724.10
22-Dec-2009	Neutral		724.10
17-Oct-2009		700.00	599.00
10-Sep-2009		640.00	556.40
10-Sep-2009	Buy		556.40
20-Jul-2009		383.00	500.10
06-Jul-2009		349.00	381.60
20-Apr-2009		517.00	280.20
15-Jan-2009		469.00	255.00
15-Jan-2009	Reduce		255.00

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of INR1,100 is based on 18x our FY13F earnings forecast of INR62. Our target multiple is in line with the stock's historical average, reflecting heightened economic uncertainties and risk on its high BFSI and Europe exposure.

Risks that may impede the achievement of the target price The key risks include: 1) faster-than-anticipated slowdown and breakage of pricing discipline in the industry; 2) rupee appreciation; 3) client-specific issues; and 4) deterioration in management commentary from the current position of no issues on demand.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS
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