

November 9, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs. 91	Rs. 120
EPS change FY12E/13E (%)	(8.5)/(14.6)
Target Price change (%)	(20)
Nifty	5,221
Sensex	17,570

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	(7)	(41)	(48)
Rel. to Nifty	(5)	(10)	(38)	(38)

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	222/62
Market Cap (Rs bn/USD mn)	4/81
Daily Avg Volume (No of sh)	51631
Daily Avg Turnover (US\$m)	0.1

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	65.8	64.9	63.8
FII/NRI	15.6	17.3	19.4
Institutions	7.1	7.3	6.8
Private Corp	1.4	1.2	0.9
Public	10.1	9.4	9.1

Source: Capitaline

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- **Infinite reported revenues of US\$ 56.2 mn(-4% QoQ), missing expectations driven by ramp down in a key top client. Mgns were flat QoQ (est of +80 bpsQoQ) aided by weak currency**
- **Pfts at Rs 307 mn bettered est aided by higher other income. Net HC reduced for the 2nd qtr in a row(-146 QoQ) with revenues from top 5/10 clients declining by ~7.5/3.2% QoQ**
- **Co has cut it's US\$ revenue guidance to US\$ 220 mn (+14% YoY) V/s 26.5-29% YoY growth outlook higher on account of rampdowns in a key telecom client account**
- **Cut FY12/13E EPS by ~8.5/15% to ~Rs 26/28 driven by lower US\$ rev assumptions, albeit aided by lower currency resets. Valuations inexpensive at <4x FY12 P/E. BUY, TP Rs 120**

Disappointing operating performance

Infinite reported a 4% QoQ decline in rev to US\$ 56.2 mn, missing muted expectations of 2.8% QoQ growth. Op mgns were flat seq at 16.9% (V/s est of ~80 bps improvement) aided by lower currency and headcount reduction (Co's headcount reduced for the 2nd quarter in a row with utilization increasing to a record high in reporting history). Profits at Rs 307 mn were tad higher than estimates despite op performance miss helped by higher other income (co reported a Rs 35 mn forex gain V/s expectation of ~Rs 20 mn loss). **While top client rev increased by 36% QoQ aided by vendor consolidation gains, revenues from top 5/10 clients were down by ~7.5%/3.2% QoQ impacted adversely by sharp ramp downs in another existing key teleco client (note that this client contributed revenues of ~US\$ 60 mn in FY11), a clearly exposing high client concentration risks for a small/mid size company.** DSO increased further to 109 days (V/s 97 days in June'11 qtr) impacted adversely on account of revenue recognition on APDRP.

New guidance conservative, sharp ramp down in key client worrisome

Infinite's new rev guidance of US\$ 220 mn is very conservative despite the impact of the ramp downs from a key client account as it builds in ~4% sequential decline over the next 2 qtrs. **We continue to build in FY12 revenues higher than guidance levels at US\$227 mn, however are negatively surprised by the sharp cuts in business from a key strategic client within the span of 2 quarters and in our view raise doubts about stickiness/annuity nature of business associated typically with IT services business. Discussions with co management indicate that it has seen similar cuts in business from the client in CY06 before a sharp recovery 2-3 quarters later; however a deteriorating macro and risks from vendor consolidation exercises at other major customers will provide little confidence for now.**

Maintain BUY with a revised TP of Rs 120

While we cut our FY12/13 US\$ rev assumptions sharply by 7/11% (we now build in 17/11% YoY growth V/s 26/16% earlier), lower currency resets limit earnings cut to 8.5%/14.6% to Rs 25.9/28 respectively. Valuations at <4x FY12E earnings should limit downsides, with key upsides emerging from positive free cash generation (co has already generated FCF of Rs 280 mn in H1FY12) and new client wins. We retain BUY with a revised TP of Rs 120 (V/s Rs 150 earlier)

Financials

Y/E March	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	4.8	2.6	1.2
FY11	8,833	1,479	16.7	1,072	24.4	28.8	3.7	2.3	1.0
FY12E	10,577	1,770	16.7	1,140	25.9	25.0	3.5	1.7	0.8
FY13E	12,025	1,999	16.6	1,234	28.0	22.8	3.2	1.3	0.7

Quarterly performance

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4 FY11	Q1 FY12	Q2 FY12	YoY (%)	QoQ (%)	YTD 12	YTD 11	YoY (%)
Revenue	1,937	2,194	2,223	2,479	2,623	2,571	17.2	(2.0)	5,195	4,131	25.7
Operating Expenditure	1,619	1,830	1,852	2,053	2,176	2,137	16.8	(1.8)	4,313	3,449	25.0
Cost of revenues	1,444	1,576	1,531	1,512	1,613	1,576	0.0	(2.3)	3,190	3,020	5.6
as % of sales	74.5	71.8	68.9	61.0	61.5	61.3			61.4	73.1	
SG&A expenses	175.2	253.8	321.7	540.4	562.7	561.1	121.1	(0.3)	1,124	429	162.0
as % of sales	9.0	11.6	14.5	21.8	21.5	21.8			21.6	10.4	
EBITDA	318	364	370	426	447	434	19.2	(3.0)	881	682	29.2
Depreciation	29	31	35	72	74	75	138.9	1.1	149	61	145.8
EBIT	289	333	336	354	373	359	7.9	(3.8)	732	621	17.8
Other Income	32	(9)	6	15	27	45			72	23	
PBT	321	324	342	369	400	404	24.8	1.1	804	645	24.7
Total Tax	77	68	72	67	100	97	41.8	(3.6)	197	146	35.3
Adjusted PAT	244	256	271	302	300	307	20.3	2.6	607	499	21.6
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-			0	0	
APAT after MI	244	256	271	302	300	307	20.3	2.6	607	499	21.6
Extra ordinary items	0	0	0	0	0	0			0	0	
Reported PAT	244	256	271	302	300	307	20.3	2.6	607	499	21.6
Reported EPS	5.5	5.8	6.2	6.9	6.8	7.0	20.3	2.6	13.8	11.3	21.6

Margins (%)							(bps)	(bps)			(bps)
EBIDTA	16.4	16.6	16.7	17.2	17.0	16.9	29	(17)	17.0	16.5	46
EBIT	14.9	15.2	15.1	14.3	14.2	14.0	(120)	(26)	14.1	15.0	(95)
EBT	16.6	14.8	15.4	14.9	15.2	15.7	96	47	15.5	15.6	(13)
PAT	12.6	11.6	12.2	12.2	11.4	12.0	31	54	11.7	12.1	(39)
Effective Tax rate	24.1	21.1	21.0	18.2	25.1	23.9	286.1	(115.8)	24.5	22.6	192

Source: Company, Emkay Research

In our view, despite the sharp ramp down in business from a key client, company's new revenue guidance is conservative

Revenue (US\$ Mn)	June'11	Sep'11	Dec'11	Mar'12	FY12
Lower End	58.6	56.2	53.8	51.4	220.0
QoQ Growth			-4.1%	-4.3%	-4.3%

Source: Company, Emkay Research

Despite sharp cuts in US\$ revenue assumptions, earnings cut restricted to 8.5%/15% aided by lower currency assumptions

(All fig in Rs mn except EPS)	FY12E			FY13E		
	Old	New	% change	Old	New	% change
Revenues(US\$ mn)	245	227	-7.4	283	251	-11.6
Revenues	11,014	10,577	-4.0	12,757	12,025	-5.7
EBITDA	1,873	1,770	-5.5	2,166	1,999	-7.7
Net profits	1,245	1,140	-8.5	1,446	1,234	-14.6
EPS	28.3	25.9	-8.5	32.9	28.0	-14.6

Source: Company, Emkay Research

Operating performance at glance:

	Q2 FY12	Growth %	
		% QoQ	% YoY
<u>Vertical wise split of Revenues</u>			
Telecom & Media	40%	-14%	-21%
Manufacturing	7%	-1%	30%
Healthcare	18%	-3%	14%
Government	10%	-37%	n.a
Retail	6%	1%	72%
Others	18%	98%	128%
<u>Revenue -Service Line Split</u>			
ADM	56%	3%	14%
IP Leveraged/Prod Development	13%	-31%	-29%
Testing	10%	49%	19%
RIM	10%	-55%	40%
Enterprise S/w Solns	2.0%	20%	131%
<u>Revenue-Delivery Split</u>			
Offshore ,%	38%	-12%	57%
Onsite	62%	2%	4%
<u>Revenue-Geographical Split</u>			
US	73%	1%	1%
Europe	6%	17%	44%
India	14%	-34%	179%
APAC	7%	36%	164%
Total Employees	4423	-8%	6%
<u>Client concentration</u>			
Top client	37%	36%	31%
Top 5 clients	75%	-8%	9%
Top 10 clients	93%	-3%	21%
		bps	bps
<u>Revenue Engagement Model</u>			
T&M	59%	1020	790
Fixed Bid	27%	-650	-626
Revenue Sharing	14%	-380	-174

Source: Company, Emkay Research

Revenue growth impacted adversely by ramp downs in key telecom client

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	6,643	8,833	10,577	12,025
Growth (%)		33.0	19.7	13.7
Total Expenditure	(5,430)	(7,354)	(8,807)	(10,026)
Growth (%)		35.4	19.8	13.8
EBIDTA	1,214	1,479	1,770	1,999
Growth (%)		21.9	19.7	13.0
EBIDTA %	18.3	16.7	16.7	16.6
Other Income	(112)	62	63	41
Depreciation	66	167	309	352
EBIT	1,036	1,373	1,523	1,688
Interest	13	17	9	43
EBT	1,024	1,356	1,515	1,645
Tax	232	285	375	411
EAT	792	1,072	1,140	1,234
Growth (%)		35.3	6.4	8.2
EAT (%)	11.9	12.1	10.8	10.3

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	440	440	440	440
Reserves & surplus	2,830	3,723	4,530	5,403
Minority Interest	-	-	-	-
Networth	3,270	4,163	4,969	5,843
Secured Loans	161	297	608	608
Unsecured Loans	316	164	-	-
Loan Funds	477	461	608	608
Deferred Tax Liabilities	64	161	190	190
Total Liabilities	3,810	4,785	5,769	6,641
Goodwill	546	542	542	542
Gross Block	1,133	2,171	2,398	2,878
Less: Depreciation	(320)	(486)	(795)	(1,147)
Net block	1,359	2,227	2,145	2,272
Capital WIP	117	163	163	163
Investment	764	168	474	474
Current Assets	4,165	5,356	6,407	7,472
Inventories	-	-	-	-
Sundry debtors	3,095	3,547	4,086	4,612
Cash & bank balance	548	834	1,133	1,509
Loans & advances	500	950	1,159	1,318
Other current assets	22	25	29	33
Current Liab & Prov	2,731	3,265	3,535	3,855
Current liabilities	2,403	2,931	3,188	3,459
Provisions	328	334	348	395
Net current assets	1,434	2,091	2,872	3,618
Misc exps	-	-	-	-
Deferred Tax Assets	136	135	115	115
Total Assets	3,810	4,785	5,768	6,642

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Profit after Tax	792	1,072	1,140	1,234
Add : Depreciation	66	167	309	352
Add : Misc exp w/off	-	7	-	-
Net changes in WC	(452)	(351)	(532)	(417)
Operational Cash Flows	491	973	1,017	1,216
Capital expenditure	(646)	(1,082)	(226)	(480)
Investments	(764)	596	(306)	-
Investing Cash Flows	(1,410)	(486)	(532)	(480)
Borrowings	270	(16)	147	-
dividend paid	-	(154)	(333)	(361)
Issue of shares	955	(29)	(2)	1
Share Premium				
Financing Cash Flows	1,225	(199)	(188)	(360)
changes in cash	305	288	297	376
Opening balance	243	548	834	1,133
Closing balance	548	834	1,133	1,509

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
EPS (Rs)	19.1	24.4	25.9	28.0
CEPS (Rs)	20.6	28.2	32.9	36.0
Book Value Per Share (Rs)	74.3	94.6	112.9	132.8
Dividend Per Share (Rs)	-	3.0	6.5	7.0
Valuations Ratios (x)				
PER	4.8	3.7	3.5	3.2
P/CEPS	4.4	3.2	2.8	2.5
P/BV	1.2	1.0	0.8	0.7
EV/EBIDTA	2.6	2.3	1.7	1.3
EV/Sales	0.5	0.4	0.3	0.2
M-Cap/sales	0.6	0.5	0.4	0.3
Profitability Ratios (%)				
RoCE	37.5	28.3	26.0	25.0
RoNW	35.0	28.8	25.0	22.8
EBITDA Margin	18.3	16.7	16.7	16.6
EBIT Margins	17.3	14.8	13.8	13.7
Net Profit Margin	11.9	12.1	10.8	10.3

Recommendation History: Infinite Computer – ICSL IN

Date	Reports	Reco	CMP	Target
08/08/2011	Infinite Computer Q1FY12 Result Update	Buy	104	160
10/05/2011	Infinite Computer Q4FY11 Result Update	Buy	164	250
02/02/2011	Infinite Computer Q3FY11 Result Update	Buy	181	250
07/12/2010	Infinite Computer Initiating Coverage	Buy	170	250

Recent Research Reports

Date	Reports	Reco	CMP	Target
31/10/2011	Wipro Q2FY12 Result Update	Reduce	368	360
20/10/2011	Hexaware Technologies Q3CY11 Result Update	Accumulate	89	100
19/10/2011	eClerx Q2FY12 Result Update	Accumulate	732	800
19/10/2011	Patni Computers Q3CY11 Result Update	Not Rated	338	NA

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