

Better-than-expected quarter Stemming of market share losses brings back confidence on parity with industry growth

January 14, 2013

Rating Remains	Neutral
Target price Increased from 2300	INR 2900
Closing price January 11, 2013	INR 2712
Potential upside	+6.9%

Action: Outlook improves, but 17% rally caps material upside

INFO 3Q results surprised positively on revenue growth, post five quarters of disappointments. The results provide comfort, in our view, on 1) double-digit growth possibility in FY14F (vs 5% organic growth in FY13F) on stemming of market share losses in cost-efficiency segments; and 2) likely bottoming out of margins in 4Q, post five consecutive quarters of margin declines. The increased comfort on growth and margins lead us to raise our valuation multiples to 15x 1-yr fwd EPS (vs 13x earlier) and our target price to INR2,900. The 17% rally in INFO post results precludes us from upgrading INFO to Buy. We maintain our Neutral rating and prefer TCS over INFO on greater revenue predictability.

Catalysts: Higher-than-anticipated growth or discretionary pick-up

3Q: Growth surprises; margin guidance disappoints

INFO organic USD revenue growth at 4.2% (vs est. of 1.9% q-q) surprised, driven by pricing improvement of 1.8%, while being in line with expectations on volume growth (1.5%). Margins did not reflect the impact of improved pricing and are likely to decline further by ~100bp q-q, according to management. We expect flattish margin trends over FY13-15F at ~26% levels, with utilization remaining the key lever.

Valuation: EPS raised by ~4/7% in FY14/15F, TP raised to INR2,900

We expect organic USD revenue CAGR of 11% (vs 10% earlier) and EPS CAGR of 10% (vs 7% earlier) over FY13-15F. Our TP rises to INR2,900 (vs INR2,300 earlier) on the raising of our target multiple to 15x 1-yr fwd and 4%/7% increases in EPS estimates for FY14F/15F.

31 Mar	FY12	FY13F		FY14F		FY15F	
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	337,340	399,633	407,476	438,698	460,199	482,116	509,955
Reported net profit (mn)	83,160	91,776	93,141	97,012	100,701	105,415	112,782
Normalised net profit (mn)	83,160	91,776	93,141	97,012	100,701	105,415	112,782
FD normalised EPS	145.55	160.62	163.00	169.78	176.24	184.49	197.38
FD norm. EPS growth (%)	21.9	10.4	12.0	5.7	8.1	8.7	12.0
FD normalised P/E (x)	18.6	N/A	16.6	N/A	15.4	N/A	13.7
EV/EBITDA (x)	12.6	N/A	11.4	N/A	9.7	N/A	8.4
Price/book (x)	4.6	N/A	4.1	N/A	3.5	N/A	2.9
Dividend yield (%)	1.7	N/A	1.5	N/A	2.1	N/A	2.1
ROE (%)	27.4	25.8	26.1	23.6	24.4	22.0	23.2
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Company data, Nomura estimates

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

Anchor themes

We prefer companies that have both a focus on market share gains and better propositions in segments driving demand over turnaround candidates, where there could be continued pain in margins and/or growth.

Nomura vs consensus

Our TP is 20% higher than consensus; we expect consensus TP to move up on upgrades in EPS and target multiples on the back of strong 3Q results.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key data on Infosys

Income statement (INRmn)

Year-end 31 Mar	FY11	FY12	FY13F	FY14F	FY15F
Revenue	275,010	337,340	407,476	460,199	509,955
Cost of goods sold	-158,298	-197,143	-252,074	-282,416	-314,151
Gross profit	116,712	140,197	155,402	177,782	195,805
SG&A	-35,692	-42,407	-48,882	-57,962	-63,730
Employee share expense					
Operating profit	81,020	97,790	106,520	119,820	132,075
EBITDA	89,640	107,160	117,768	132,706	146,353
Depreciation	-8,620	-9,370	-11,248	-12,886	-14,279
Amortisation					
EBIT	81,020	97,790	106,520	119,820	132,075
Net interest expense					
Associates & JCEs					
Other income	12,110	19,040	21,765	20,042	24,567
Earnings before tax	93,130	116,830	128,285	139,862	156,642
Income tax	-24,900	-33,670	-35,144	-39,161	-43,860
Net profit after tax	68,230	83,160	93,141	100,701	112,782
Minority interests	0	0	0	0	0
Other items					
Preferred dividends					
Normalised NPAT	68,230	83,160	93,141	100,701	112,782
Extraordinary items	0	0	0	0	0
Reported NPAT	68,230	83,160	93,141	100,701	112,782
Dividends	-40,096	-31,419	-27,409	-32,088	-32,088
Transfer to reserves	28,134	51,741	65,732	68,612	80,694

Valuation and ratio analysis

Reported P/E (x)	22.7	18.6	16.6	15.4	13.7
Normalised P/E (x)	22.7	18.6	16.6	15.4	13.7
FD normalised P/E (x)	22.7	18.6	16.6	15.4	13.7
FD normalised P/E at price target (x)	24.3	19.9	17.8	16.5	14.7
Dividend yield (%)	2.2	1.7	1.5	2.1	2.1
Price/cashflow (x)	30.1	25.0	22.3	18.9	17.8
Price/book (x)	5.7	4.6	4.1	3.5	2.9
EV/EBITDA (x)	15.5	12.6	11.4	9.7	8.4
EV/EBIT (x)	17.1	13.8	12.6	10.7	9.3
Gross margin (%)	42.4	41.6	38.1	38.6	38.4
EBITDA margin (%)	32.6	31.8	28.9	28.8	28.7
EBIT margin (%)	29.5	29.0	26.1	26.0	25.9
Net margin (%)	24.8	24.7	22.9	21.9	22.1
Effective tax rate (%)	26.7	28.8	27.4	28.0	28.0
Dividend payout (%)	58.8	37.8	29.4	31.9	28.5
Capex to sales (%)	4.5	5.3	8.0	3.9	3.9
Capex to depreciation (x)	1.4	1.9	2.9	1.4	1.4
ROE (%)	27.1	27.4	26.1	24.4	23.2
ROA (pretax %)	58.6	61.5	54.4	52.1	51.9

Growth (%)

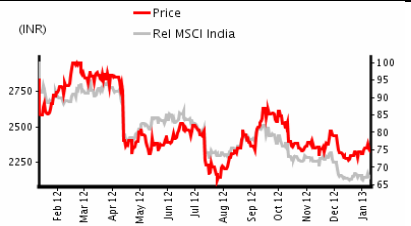
Revenue	20.9	22.7	20.8	12.9	10.8
EBITDA	14.0	19.5	9.9	12.7	10.3
EBIT	16.5	20.7	8.9	12.5	10.2
Normalised EPS	11.1	21.9	11.9	8.1	12.0
Normalised FDEPS	11.2	21.9	12.0	8.1	12.0

Per share

Reported EPS (INR)	119.45	145.61	163.00	176.24	197.38
Norm EPS (INR)	119.45	145.61	163.00	176.24	197.38
Fully diluted norm EPS (INR)	119.42	145.55	163.00	176.24	197.38
Book value per share (INR)	478.01	585.87	661.14	781.21	922.43
DPS (INR)	60.00	47.02	41.00	56.16	56.16

Source: Company data, Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	18.2	7.1	-4.1
Absolute (USD)	17.4	3.1	-9.0
Relative to index	16.9	1.7	-26.9
Market cap (USDmn)	28,463.8		
Estimated free float (%)			
52-week range (INR)	2994/2060.55		
3-mth avg daily turnover (USDmn)	60.51		
Major shareholders (%)			
N R Narayana Murthy	4.5		
Nandan M Nilekani	3.4		

Source: Thomson Reuters, Nomura research

Notes

We expect organic USD revenue CAGR of 11% over FY13-15F.

Cashflow (INRmn)

Year-end 31 Mar	FY11	FY12	FY13F	FY14F	FY15F
EBITDA	89,640	107,160	117,768	132,706	146,353
Change in working capital	-11,490	-12,270	-12,865	-11,506	-15,351
Other operating cashflow	-26,680	-32,930	-35,474	-39,161	-43,860
Cashflow from operations	51,470	61,960	69,428	82,039	87,142
Capital expenditure	-12,240	-17,950	-32,510	-18,000	-20,000
Free cashflow	39,230	44,010	36,918	64,039	67,142
Reduction in investments	0	0	0	0	0
Net acquisitions					
Reduction in other LT assets					
Addition in other LT liabilities	0	0	0	0	0
Adjustments	0	0	0		
Cashflow after investing acts	39,230	44,010	36,918	64,039	67,142
Cash dividends	-40,096	-31,419	-27,409	-32,088	-32,088
Equity issue	14,406	9,839	-22,569	0	0
Debt issue					
Convertible debt issue					
Others	12,110	19,040	21,765	20,042	24,567
Cashflow from financial acts	-13,580	-2,540	-28,213	-12,046	-7,521
Net cashflow	25,650	41,470	8,706	51,992	59,621
Beginning cash	142,680	168,330	209,800	218,506	270,498
Ending cash	168,330	209,800	218,506	270,498	330,119
Ending net debt	-168,330	-209,800	-218,506	-270,498	-330,119

Source: Company data, Nomura estimates

Notes

Strong cash flow generation to continue

Balance sheet (INRmn)

As at 31 Mar	FY11	FY12	FY13F	FY14F	FY15F
Cash & equivalents	168,330	209,800	218,506	270,498	330,119
Marketable securities					
Accounts receivable	58,960	77,550	96,606	109,106	122,948
Inventories	0	0	0	0	0
Other current assets	24,390	27,220	31,224	36,895	43,564
Total current assets	251,680	314,570	346,335	416,498	496,631
LT investments	0	0	0	0	0
Fixed assets	57,170	65,750	87,012	92,127	97,848
Goodwill					
Other intangible assets					
Other LT assets	3,780	3,040	3,370	3,370	3,370
Total assets	312,630	383,360	436,717	511,995	597,849
Short-term debt					
Accounts payable	18,600	22,440	31,749	35,890	39,847
Other current liabilities	21,000	26,310	27,195	29,720	30,923
Total current liabilities	39,600	48,750	58,944	65,609	70,770
Long-term debt					
Convertible debt					
Other LT liabilities	0	0	0	0	0
Total liabilities	39,600	48,750	58,944	65,609	70,770
Minority interest	0	0	0	0	0
Preferred stock	0	0	0	0	0
Common stock	2,860	2,860	2,860	2,860	2,860
Retained earnings	270,170	331,750	374,913	443,525	524,219
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	273,030	334,610	377,773	446,385	527,079
Total equity & liabilities	312,630	383,360	436,717	511,995	597,849
Liquidity (x)					
Current ratio	6.36	6.45	5.88	6.35	7.02
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	62.3	74.1	78.0	81.6	83.0
Days inventory	0.0	0.0	0.0	0.0	0.0
Days payable	48.5	38.1	39.2	43.7	44.0
Cash cycle	13.9	36.0	38.8	37.9	39.0

Source: Company data, Nomura estimates

Notes

Cash levels are increasing

Confidence on parity with industry growth increases

Infosys 3Q revenue beat on organic growth, and continued deal win traction restores our confidence on it achieving parity with industry growth in FY14F, a belief which had been put into question post the underperformance in FY13F.

Infosys organic USD revenue growth of 4.2% q-q was ahead of our expectation (1.9% q-q); the beat was largely driven by better-than-anticipated pricing improvements (1.8% q-q), while volume growth at 1.5% q-q (ex Lodestone, BPO and products) was largely in line with our expectations.

The company redoubling its efforts on cost-efficiency segments and increasing in flexibility have led to improved traction in cost-efficiency segments such as testing, IMS and BPO. The company has also signed eight large deals in the business IT space totalling TCV of USD731mn in 3Q, which according to the management will lead to improved growth prospects for ADM post two quarters. In addition in 3Q, the more volatile segments such as CSI (ex of Lodestone), products and India business as well performed strongly, with 8.3%/9%/46% q-q growth, respectively.

While our comfort on the company achieving double-digit organic growth in FY14F has increased, we do not believe there is a case to argue for substantially higher than 11% revenue growth CAGR over FY13-15F that we are currently building in. This is so because of:

- **High contribution from volatile segments:** 68% of the incremental revenues in 3Q on an organic basis came from volatile segments such as CSI and products. With the company indicating these ramp-ups were largely led by unexecuted deal flow and no material pick-up in discretionary spending, we remain cautious on these segments.
- **Pricing improvement led by business mix change could reverse:** The revenue beat was largely driven by pricing improvement led by an increase in CSI contribution. However, given that current deal flow is predominantly skewed towards lower realization business, IT services pricing trend reversal is possible, in our view.

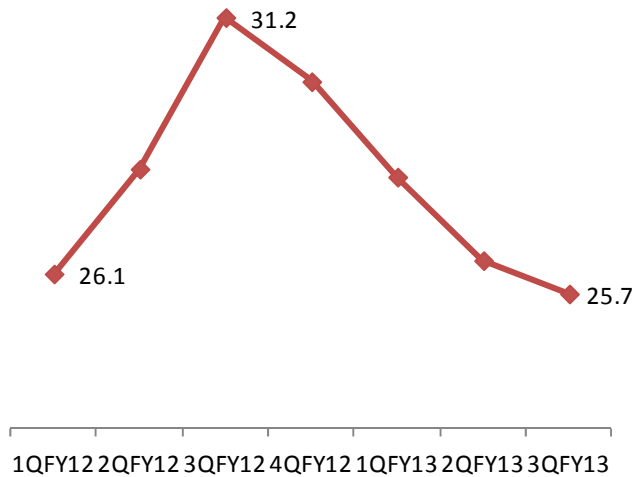
Margin pain likely to continue for one more quarter

Infosys margins have declined by ~550bps over the past four quarters and are likely to decline by a further ~100bps in 4Q on 2-3% increase in onsite wages and 6,000-9,000 promotions, according to management. The company revised its FY13F margin guidance to 26.3% versus 27% earlier. This is largely due to 1) lower-than-anticipated volume growth leading to sluggish utilization rates; 2) higher subcontracting and continued local hiring; 3) greater skew towards laterals hiring; and 4) a deferred compensation charge of USD13mn for FY13F on account of the Lodestone acquisition.

We expect Infosys margins to stay in the 26% area over FY13-15F as it leverages its lower utilization (best case scope of ~800bps, according to the company) to counter investments in the platform, products and consulting space, and wage inflation. Our expectations build in close of ~400bp improvement to 74% levels excluding trainee utilization over FY13-15F. We believe onsite utilizations might have undergone a structural reset compared to previous high levels of 95%+ given increases in local hiring and consulting staff.

Fig. 1: EBIT margin (%) trend

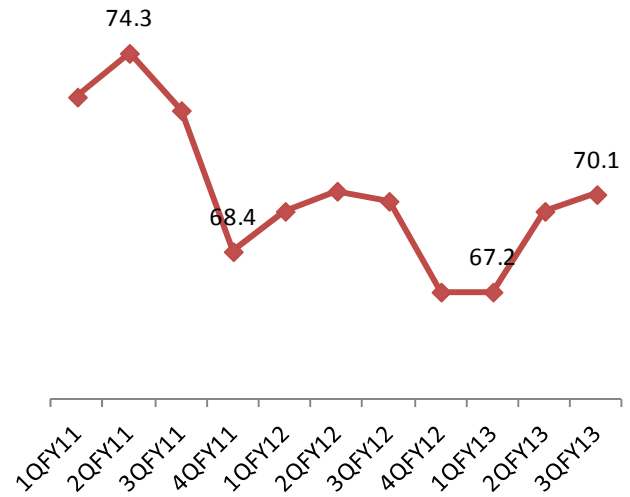
INFO EBIT margins have declined by ~550bps over the past four quarters



Source: Company data, Nomura research

Fig. 2: Utilization incl trainees (%) trend

Near 400bps utilization scope vs recent peak in utilization (incl trainees)



Source: Company data, Nomura research

EPS estimates up on higher revenue and margin forecasts

We raise our revenue growth forecasts on the back of the 3Q revenue beat – we now look for organic revenue growth of 5% in FY13F and 11% each in FY14F and FY15F (up from 4.4%/10%/10% in FY13/14/15F earlier). Including Lodestone, our revenue growth estimates are for 6.5%/13%/11% in FY13/14/15F).

Our EBITDA margin estimates are up by 80bps in FY15F largely on account of a higher USD/INR assumption. For FY13F, we lower our EBITDA margin assumption in line with management guidance of a 1% impact on 4Q margins on account of onsite wage hikes and promotions.

We slightly lower our tax rate assumptions in line with management guidance while also marginally cutting other income projections on lower yields going forward. All in, our EPS estimates are up by 2%/4%/7% for FY13/14/15F.

Fig. 3: Earnings revisions

	New			Old			Change (%)		
	FY13F	FY14F	FY15F	FY13F	FY14F	FY15F	FY13F	FY14F	FY15F
Revenue (USD mn)	7,451	8,444	9,357	7,415	8,277	9,097	0.5	2.0	2.9
Revenue (INR bn)	407.5	460.2	510.0	399.6	438.7	482.1	2.0	4.9	5.8
EBITDA margin (%)	28.9	28.8	28.7	29.4	28.7	27.9	-50 bps	10 bps	80 bps
Tax Rate (%)	27.4	28.0	28.0	28.6	28.5	28.5	-120 bps	-50 bps	-50 bps
Diluted EPS (INR)	163.0	176.2	197.4	160.6	169.8	184.5	1.5	3.8	7.0

Source: Nomura estimates

Maintain Neutral; raise TP to INR2,900 on increase in valuation multiple and EPS estimates

We expect organic USD revenue CAGR of 11% (vs 10% earlier) and EPS CAGR of 10% (vs 7% earlier) over FY13-15F. The increased comfort on growth and margins lead us to raise our valuation multiples to 15x 1-yr fwd EPS (vs 13x earlier). Our TP thus rises to INR2,900 on the higher valuation multiple and 4/7% increases in EPS estimates over FY14/15F.

The 17% rally precludes us from raising INFO to Buy. Maintain Neutral and prefer TCS over INFO on greater revenue predictability.

Valuation Methodology

We value Infosys at 15x one-year forward earnings of INR193, which is a 25% discount to its long-term average valuation. We believe the discount is justified on lower-than-historical growth rates and softness in demand. Our target price is INR2,900.

Risks

Key downside risks are: 1) a worse-than-expected slowdown and breakage of pricing discipline in the industry; 2) client-specific issues; and 3) an adverse ruling in its pending B1 visa violation case in the US. Upside risks include improvement in discretionary demand leading to higher-than-expected revenue growth.

3QFY13 result highlights

- USD revenue growth of 6.3% q-q was above our estimate of 4.4% and the consensus estimate of 4%. Organic revenue growth of 4.2% q-q was above our estimate of 1.9% and consensus of 1.7%. Lodestone contributed USD39mn to revenues.
- In constant currency terms, revenue growth was 5.8% q-q (incl. Lodestone acquisition).
- EBIT margin decline of 60bps q-q to 25.7% was in line with our estimate (of 70bps decline) and the consensus estimate of 80bps decline. Ex-Lodestone, EBIT margins were 26.1%, a q-q decline of 20bps.
- Gross margin decline of 110bps q-q and SGA as a percentage of sales declined by 50bp q-q.
- Pricing on a constant currency basis was up by 3.2% on a blended basis, with onsite growing by 3.2% and offshore by 1.9%. Volume growth was 2.7% on blended basis, with 3.9% growth at onsite and 2.3% at offshore.
- Ex-Lodestone products and BPO, on a blended basis, pricing was up by 1.8% q-q while volumes were up by 1.5% q-q.
- Quarterly annualized attrition reduced to 17% at the consolidated level (from 21% in 2QFY13).
- Among business divisions, Business operations increased by 2.1% q-q, Consulting and systems integration increased by 15.6% q-q, and the Products and platform space increased by 6.3% q-q.
- Among verticals, in terms of constant currency, BFSI grew by 6% q-q, Manufacturing grew by 4% q-q, Retail consumer and logistics grew by 6.2% q-q and Energy and Communication services grew by 7.1% q-q.
- Among geographies, in terms of constant currency, US grew by 1.6% q-q, Europe grew by 14.4% q-q, ROW grew by 7.4% q-q while India had a strong growth of 44.7% q-q.
- Infosys has won eight large deal wins in the quarter – amounting to USD731mn in TCV.

Fig. 4: 3QFY13: actual vs expected performance

Key parameters	3QFY13		2QFY13	q-q (%)	3QFY12	y-y (%)
	Actual	Est.				
Revenues (USD mn)	1,911	1,808	1,797	6.3%	1,746	9.5%
Revenues (INR mn)	104,240	98,923	98,580	5.7%	80,990	28.7%
EBITDA (INR mn)	29,700	30,950	28,720	3.4%	25,160	18.0%
EBITDA (%)	28.5%	31.3%	29.1%	-60bp	31.1%	-260bp
PAT (INR mn)	23,690	24,437	23,690	0.0%	19,060	24.3%
Diluted EPS (INR)	41.5	42.8	41.5	0.0%	33.4	24.3%

Source: Company data, Nomura estimates

Fig. 5: Infosys FY13F guidance

Infosys retained its organic USD revenue growth guidance of 5% while raising EPS target to INR162.8

	FY13F	FY13F-Old
Revenue (USD bn)	7.450	7.343
y-y growth (%)	6.5%	5.0%
Revenue (INR bn)	407.46	395.82
y-y growth (%)	20.8%	17.3%
EPS (INR)	162.80	160.61
y-y growth (%)	11.9%	10.3%
EPS (USD)	2.97	2.97

Source: Company data, Nomura research

Other highlights

- Cash and equivalents (including certificates of deposit) at end-3Q were USD4.1bn (INR393 per share).
- Total headcount at the end of 3Q was 155,629 (net addition of 1,868 people or 1.2% q-q increase).
- DSO days were down 3 days to 62 during 3Q.

Fig. 6: Quarterly performance and estimates

Y/E MARCH (INR mn)	FY12				FY13				FY12	FY13F
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QF		
Revenues (USD mn)	1,671	1,746	1,806	1,771	1,752	1,797	1,911	1,991	6,994	7,451
<i>q-q change (%)</i>	4.3	4.5	3.4	-1.9	-1.1	2.6	6.3	4.2	15.8	6.5
Revenues	74,850	80,990	92,980	88,520	96,160	98,580	104,240	108,496	337,340	407,476
<i>q-q change (%)</i>	3.2	8.2	14.8	-4.8	8.6	2.5	5.7	4.1	22.7	20.8
Direct Expenses	43,540	45,090	50,520	49,560	55,570	58,270	62,730	65,381	188,710	241,951
SG&A	9,560	10,740	11,110	10,060	11,130	11,590	11,810	13,227	41,470	47,757
EBITDA	21,750	25,160	31,350	28,900	29,460	28,720	29,700	29,888	107,160	117,768
<i>EBITDA margin (%)</i>	29.1	31.1	33.7	32.6	30.6	29.1	28.5	27.5	31.8	28.9
Other Income	4,430	3,870	4,220	6,520	4,760	7,060	5,030	4,915	19,040	21,765
Depreciation	2,230	2,350	2,360	2,430	2,530	2,750	2,930	3,038	9,370	11,248
PBT	23,950	26,680	33,210	32,990	31,690	33,030	31,800	31,765	116,830	128,285
Provision for Tax	6,730	7,620	9,490	9,830	8,800	9,340	8,110	8,894	33,670	35,144
<i>Tax rate (%)</i>	28.1	28.6	28.6	29.8	27.8	28.3	25.5	28.0	28.8	27.4
PAT aft. minority and EO	17,220	19,060	23,720	23,160	22,890	23,690	23,690	22,871	83,160	93,142
<i>q-q change (%)</i>	-5.3	10.7	24.4	-2.4	-1.2	3.5	0.0	-3.5	21.9	12.0
Diluted EPS (INR)	30.1	33.4	41.5	40.5	40.1	41.5	41.5	40.0	145.5	163.0

Source: Company data, Nomura estimates

Fig. 7: Sequential growth matrix

US\$ q-q revenue growth (%)	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Verticals					
Banking and Financial Services	2%	-4%	0%	0%	6%
Energy & Utilities	9%	0%	-25%	18%	8%
Insurance	8%	-9%	-5%	4%	10%
Manufacturing	4%	2%	2%	3%	4%
Retailing	1%	2%	6%	3%	0%
Telecom	-3%	1%	-1%	1%	3%
Transportation	22%	-22%	5%	3%	13%
Service Lines					
Development	3%	-3%	0%	2%	-1%
Maintenance	4%	-6%	-1%	5%	-1%
Infrastructure Management	9%	0%	5%	6%	8%
Consulting & Package Implementation	1%	0%	-5%	3%	16%
Testing	0%	-3%	5%	6%	4%
Engg Services	10%	-7%	2%	0%	0%
Business process management	-3%	7%	1%	-2%	18%
Products	18%	-10%	1%	-13%	9%
Geography					
North America	1%	-4%	2%	2%	2%
Europe	14%	0%	-8%	5%	17%
India	-1%	-7%	-1%	-18%	46%
RoW	0%	6%	-1%	3%	8%

Source: Company data, Nomura estimates

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.

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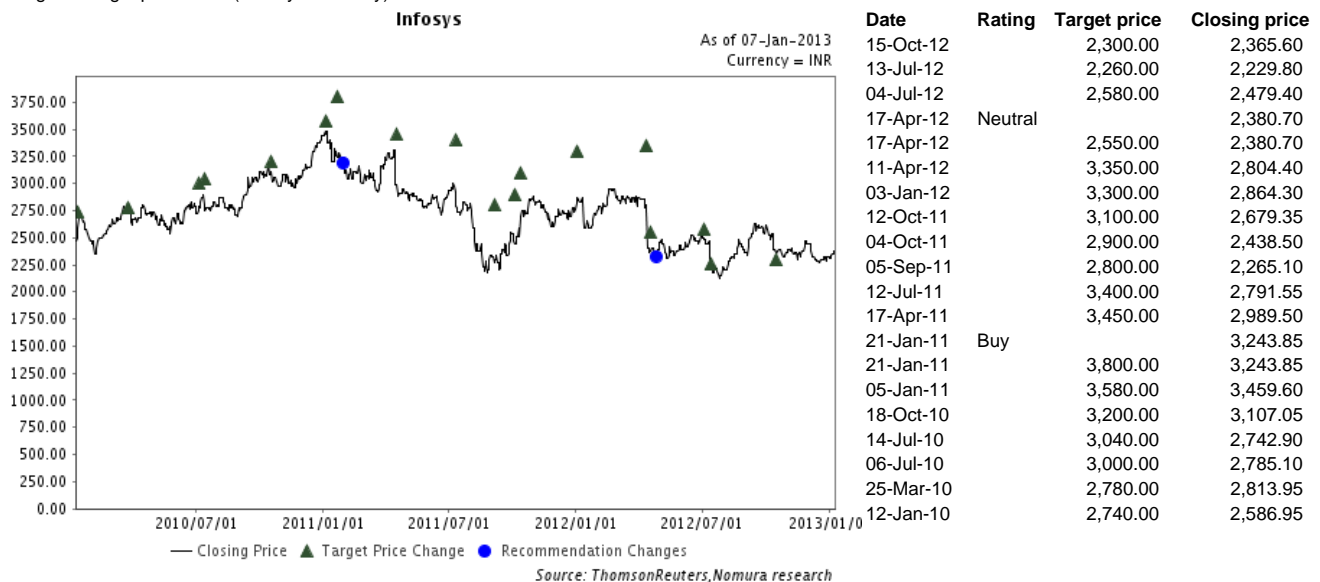
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Infosys	INFO IN	INR 2712	11-Jan-2013	Neutral	Not rated	
Tata Consultancy Services	TCS IN	INR 1306	11-Jan-2013	Neutral	Not rated	

Infosys (INFO IN)

INR 2712 (11-Jan-2013) Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



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

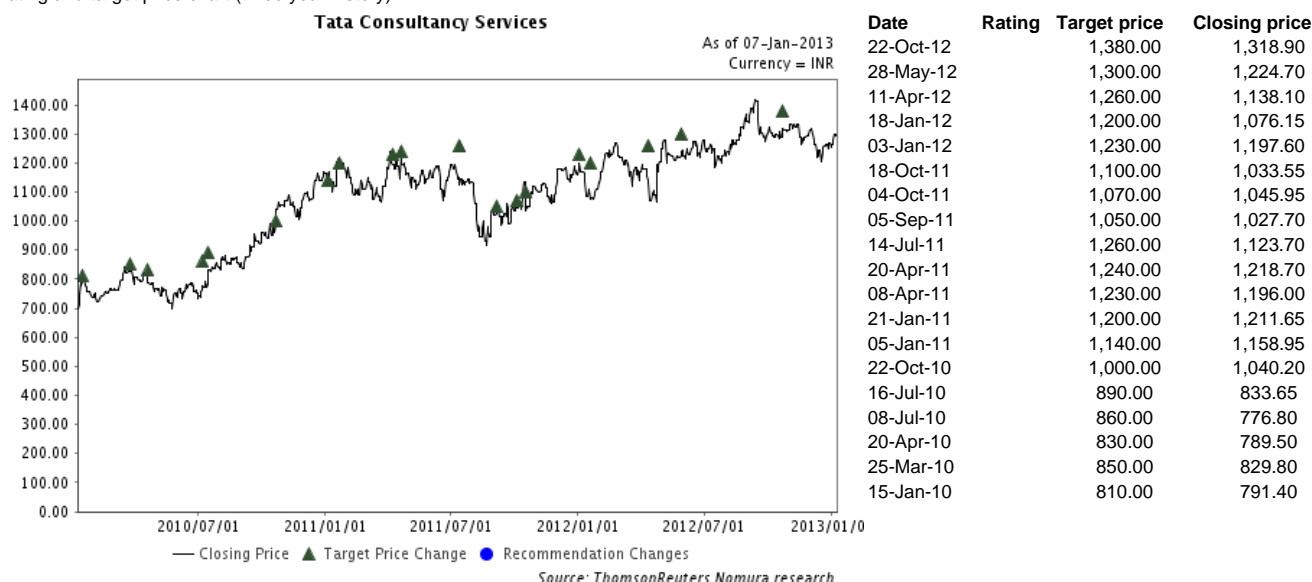
Valuation Methodology We value Infosys at 15x one-year forward earnings of INR193, which is a 25% discount to its long-term average valuation. We believe the discount is justified on lower-than-historical growth rates and softness in demand. Our target price is INR2,900.

Risks that may impede the achievement of the target price Key downside risks are: 1) a worse-than-expected slowdown and breakage of pricing discipline in the industry; 2) client-specific issues; and 3) an adverse ruling in its pending B1 visa violation case in the US. Upside risks include improvement in discretionary demand leading to higher-than-expected revenue growth.

Tata Consultancy Services (TCS IN)

INR 1306 (11-Jan-2013) Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



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

Valuation Methodology Our TP of INR1,380 is based on 17x our one-year rolling forward earnings forecast of INR81. Our target multiple is in line with the stock's historical average and is at a premium of 30% over slower-growing peers such as INFO and WPRO.

Risks that may impede the achievement of the target price Risks on the upside include a recovery in global macro leading to demand rebound faster than we anticipate, while downside risks include: 1) faster-than-anticipated slowdown and breakage of pricing discipline in the industry; 2) client-specific issues; and 3) deterioration in management commentary.

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STOCKS

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SECTORS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

STOCKS

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