

Optimistic Revenue Guidance and dividend policy for FY13E auger well

Results Highlights

- ⇒ Infinite top-line in US\$ terms increased marginally by 0.5% q-o-q but was down 3.1% y-o-y to US\$ 53.1 primarily due to continued ramp down from telecom vertical which was down 11.5% q-o-q and 32.3% y-o-y.
- ⇒ Revenues in INR terms grew 7.7% y-o-y but was down 0.9% q-o-q to Rs 2.67 due to rupee appreciation
- ⇒ Net profits were down 47.3% q-o-q and 31.5% y-o-y to Rs 207 mn and diluted EPS stood at Rs 4.8 down 47.1% in the quarter. PAT margin declined by 683 bps q-o-q and 411 bps y-o-y to 7.8% due to forex loss of Rs 54 mn in contrast to a forex gain of Rs 64 mn in the previous quarter
- ⇒ EBITDA margins contracted 467 bps q-o-q and 193 bps y-o-y to 15.3%, due to rupee appreciation, investment in business and decline in top line.
- ⇒ Delays in payment from APDRP project of Uttarakhand resulted in flat revenue from India and Debtor days remained high at 114 days in the quarter
- ⇒ Net employees reduced by 155 in the quarter, taking the total employee count to 3,988. This is the fourth consecutive quarter of reduction in net employees primarily to problems from one main client in IMS vertical in Europe.
- ⇒ Utilization stood at 90% in the quarter due to continuous decline in no of employees however we believe it is at optimum levels and will decline going forward with fresher's hiring.
- ⇒ Free Cash flow continued to be positive in the quarter and stood at Rs 750 for FY12, despite not receiving payments for the APDRP contract from government of Uttarakhand
- ⇒ Tax rate for the quarter stood at 25.5% (due to ending of tax benefits from STPI's) and will remain in the range of 25-26% for FY13E.
- ⇒ The company's new dividend policy to pay 30% of its profit as dividend is a positive approach and it declared a final dividend of Rs 4.5 in addition to an interim dividend of Rs 4.0.

Optimistic revenue guidance of 31% topline growth in FY13E — Positive

Infinite's management is optimistic about the growth of the company due to some big deals wins expected in the near term and ramp up from existing accounts, thus have given a guidance of 20% top line growth and 11% PAT growth in US\$ terms for FY13. In INR terms it expects top line to grow come at Rs 13.8 bn up 31% y-o-y and PAT to grow 21% y-o-y to Rs 1.46 bn. This high growth expectation is despite the decline in revenues from largest telecom client in FY12 and concerns over IT spending especially in Europe. We believe new deals wins, growth from existing clients and rupee depreciation will fuel the growth going forward

Margins to remain under pressure despite increase in non linear revenue stream

Management indicated only 21% increase in PAT for FY13E (top line expected to rise 31%) despite higher portion of revenues from non linear revenue models, significant rupee depreciation and no major hiring plans, which suggests that margins are going to be under pressure going forward. Main reason cited were reinvestment in business and increased SG&A expenses, which we believe is required in the tough environment to boost sales.

Outlook and Valuation

We increase our top-line estimate on account of expected clients wins (yet to be announced), rupee depreciation and increase in business from existing clients. Our top line estimates for FY13E and FY14E now stand at Rs 13.7 bn and Rs 16.2 bn up 29.9% and 18.2% respectively. EBITDA margins for FY13E will contract by 81 bps to 16.5% due to reinvestment in business. We estimate EPS for FY13E and FY14E to stand at Rs 32.2 and Rs 39.5 respectively. The stock currently trades at a P/E of 3.2x and 2.6x FY13E and FY14E earnings which we think is at a steep discount to its peers considering its healthy deal pipeline, high cash reserve of Rs 56/share, healthy return ratios and pretty good cash flows generation. We maintain our "BUY" rating on the stock and maintain our target price of Rs 168 an upside of 63.3% from current levels.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Bullish

Stock

CMP (Rs)	102.9
Target Price (Rs)	168.0
BSE code	533154
NSE Symbol	Infinite
Bloomberg	ICSL.IN
Reuters	INFI.BO

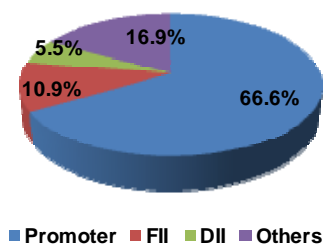
Key Data

Nifty	4921.4
52WeekH/L(Rs)	167.0/56.2
O/s Shares (mn)	43.0
Market Cap (Rs mn)	4,426
Face Value (Rs)	10

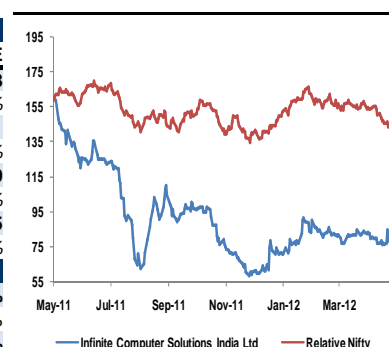
Average volume

3 months	49,325
6 months	55,750
1 year	53,079

Share Holding Pattern (%)



Relative Price Chart



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Key Financials					
YE March (Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
Net Sales	6,643	8,833	10,558	13,717	16,218
Sales Growth (Y-o-Y) %	35.6%	33.0%	19.5%	29.9%	18.2%
EBIDTA	1,147	1,481	1,830	2,266	2,621
EBIDTA Growth (Y-o-Y) %	17.3%	16.8%	17.3%	16.5%	16.2%
Net Profit	840	1,072	1,207	1,388	1,700
Net Profit Growth (Y-o-Y) %	83.7%	27.6%	12.6%	15.0%	22.5%
Diluted EPS	21.4	24.6	28.0	32.2	39.5
Diluted EPS Growth (Y-o-Y) %	78.9%	15.0%	13.9%	15.0%	22.5%
Key Ratios					
EBITDA Margin %	17.3%	16.8%	17.3%	16.5%	16.2%
NPM (%)	12.6%	12.1%	11.4%	10.1%	10.5%
RoE (%)	35.1%	28.5%	25.3%	23.7%	24.5%
RoCE (%)	31.0%	25.1%	22.3%	21.0%	22.1%
Book Value Per share (Rs.)	83.3	94.7	120.0	141.4	167.6
Valuation Ratios					
P/E (x)			3.7x	3.2x	2.6x
EV/EBITDA			1.9x	1.2x	0.6x
P/BV (x)			0.9x	0.7x	0.6x

**Buy Back Update**

The company completed its Buy Back plan and spend a total sum of Rs 163 mn. Total 1.4mn shares were bought at an average price of Rs 116.4 per share. The promoter contribution stood at 65.92% in the end of the quarter. The promoter group, MC Data Systems, have further bought 300,000 shares from open market taking their total shareholding to 67%. The company has also declared an interim.

Quarterly Result Analysis

YE March (Rs. mn)	Q4 FY12	Q3 FY12	Q-o-Q Change %	Q4 FY11	Y-o-Y Change %	FY12	FY11	Y-o-Y Change %
Net Sales	2,669	2,694	(0.9%)	2,479	7.7%	10,558	8,833	19.5%
Less:								
Employees Remuneration & Benefits	2,017	1,888	6.8%	1,698	18.8%	7,291	5,829	25.1%
Administrative & Other Expenses	243	267	(9.1%)	353	(31.2%)	1,437	1,524	(5.7%)
Total Expenditure	2,260	2,155	4.8%	2,051	10.2%	8,728	7,352	18.7%
EBIDTA	409	539	(24.1%)	428	(4.3%)	1,830	1,481	23.6%
Less: Depreciation	90	90	0.3%	72	24.5%	329	167	96.2%
Less: Interest	7	4	84.6%	6	20.0%	19	19	0.5%
Add: Other income	(35)	79	NA	20	NA	124	75	66.2%
Profit Before Tax	278	525	(47.1%)	370	(24.8%)	1,607	1,356	18.5%
Profit before extraordinary items and Tax	278	525	(47.1%)	370	(24.8%)	1,607	1,369	17.3%
Less: Total Tax	71	132	(46.5%)	67	5.4%	400	284	40.6%
PAT	207	393	(47.3%)	302	(31.5%)	1,207	1,072	12.6%
Adjusted PAT	207	393	(47.3%)	302	(31.5%)	1,207	1,085	11.2%
Reported EPS (Rs.)	4.8	9.1	(47.1%)	6.9	(30.1%)	28.1	24.4	15.0%
Adjusted EPS (Rs.)	4.8	9.1	(47.1%)	6.9	(30.1%)	28.1	24.7	13.6%
Adjusted number of Shares Outstanding (mn)	43.0	43.2	(0.4%)	44.0	(2.1%)	43.0	44.0	(2.1%)
Margin Analysis %			Change in bps		Change in bps			Change in bps
EBIDTA Margin	15.3%	20.0%	-467	17.3%	-193	17.3%	16.8%	57
Operating margin	18.7%	23.3%	-463	20.2%	-147	20.4%	18.7%	178
NPM	7.8%	14.6%	-683	12.2%	-444	11.4%	12.1%	-70
Adjusted NPM	7.8%	14.6%	-683	12.2%	-444	11.4%	12.3%	-85
Effective Tax Rate %	25.5%	25.2%	29	18.2%	730	24.9%	21.0%	392
Cost Analysis %			Change in bps		Change in bps			Change in bps
Employees Remuneration & Benefits/Sales	75.6%	70.1%	549	68.5%	707	69.1%	66.0%	307
SG&A/Net sales	9.1%	9.9%	-82	14.3%	-514	13.6%	17.3%	-364

Source : Company, BP Equities Research



Income Statement

YE March (Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
Total Revenue	6,643	8,833	10,558	13,717	16,218
Growth %	35.6%	33.0%	19.5%	29.9%	18.2%
Less:					
Employees Remuneration & Benefits	3,210	5,829	7,291	9,531	11,245
Administrative & Other Expenses	2,286	1,524	1,437	1,920	2,352
Total Operating Expenditure	5,496	7,352	8,728	11,451	13,597
EBIDTA	1,147	1,481	1,830	2,266	2,621
Growth %	96.9%	29.1%	23.6%	23.8%	15.7%
Less: Depreciation	66	167	329	381	417
EBIT	1,082	1,313	1,501	1,886	2,205
Growth %	102.4%	21.4%	14.3%	25.6%	16.9%
Interest Paid	30	19	19	21	24
Non-operating Income	20	75	124	(14)	86
Extraordinary Expense	0	13	0	0	0
Profit Before tax	1,071	1,356	1,607	1,851	2,267
Tax	231	284	400	463	567
Minority Interest	0	0	0	0	0
Net Profit	840	1,072	1,207	1,388	1,700
Growth %	83.7%	27.6%	12.6%	15.0%	22.5%
Adjusted Profit	840	1,082	1,207	1,388	1,700
Diluted EPS	21.4	24.6	28.0	32.2	39.5
Growth %	78.9%	15.0%	13.9%	15.0%	22.5%

Source: Company, BP Equities Research

Balance Sheet

YE March (Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
Liabilities					
Equity Capital	440	440	426	426	426
Reserves & Surplus	2,830	3,723	4,738	5,660	6,788
Equity	3,270	4,163	5,164	6,085	7,214
Net Worth	3,270	4,163	5,164	6,085	7,214
Net Deferred tax liability/(Asset)	64	161	230	230	230
Total Loans	477	461	591	591	591
Capital Employed	3,810	4,785	5,984	6,906	8,035
Assets					
Gross Block	1,133	2,171	2,871	3,171	3,471
Less: Depreciation	320	486	814	1,195	1,611
Net Block	813	1,685	2,057	1,976	1,860
Capital WIP	117	163	143	151	154
Investments	764	168	168	168	168
Intangible Assets	546	542	742	742	742
Others - A	136	135	200	200	200
Current Assets					
Sundry Debtors	2,194	2,339	2,893	3,382	3,999
Cash and Bank Balance	548	835	1,509	2,305	3,382
Loans and Advances	500	950	1,056	1,303	1,500
Other Current Assets	922	1,232	1,362	1,495	1,565
Total Current Assets	4,165	5,356	6,819	8,485	10,446
Less: Current Liabilities & Provisions					
Sundry Creditors	476	1,146	1,435	1,788	2,123
Provisions	328	334	483	670	786
Other Current Liabilities	1,927	1,786	2,228	2,359	2,627
Total Current Liabilities & Provisions	2,731	3,265	4,145	4,818	5,536
Capital Applied	3,810	4,785	5,984	6,906	8,035

Source: Company, BP Equities Research

Key Ratios

YE March (Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
Key Operating Ratios					
EBITDA Margin (%)	17.3%	16.8%	17.3%	16.5%	16.2%
Tax / PBT (%)	21.6%	21.0%	24.9%	25.0%	25.0%
Net Profit Margin (%)	12.6%	12.1%	11.4%	10.1%	10.5%
RoE (%)	35.1%	28.5%	25.3%	23.7%	24.5%
RoCE (%)	31.0%	25.1%	22.3%	21.0%	22.1%
Current Ratio (x)	1.5x	1.6x	1.6x	1.8x	1.9x
Dividend Payout (%)	0.0%	14.3%	16.4%	33.6%	33.6%
Book Value Per Share (Rs.)	83.3	94.7	120.0	141.4	167.6
Financial Leverage Ratios					
Debt/ Equity (x)	0.1x	0.1x	0.1x	0.1x	0.1x
Interest Coverage (x)	38.4x	79.6x	97.9x	109.5x	110.8x
Interest / Debt (%)	8.7%	4.0%	3.6%	3.5%	4.0%
Growth Indicators %					
Growth in Gross Block (%)	52.5%	91.6%	32.2%	10.4%	9.5%
Sales Growth (%)	35.6%	33.0%	19.5%	29.9%	18.2%
EBITDA Growth (%)	96.9%	29.1%	23.6%	23.8%	15.7%
Net Profit Growth (%)	83.7%	27.6%	12.6%	15.0%	22.5%
Diluted EPS Growth (%)	78.9%	15.0%	13.9%	15.0%	3950.7%
Turnover Ratios					
Debtors (Days of net sales)	121	97	100	90	90
Creditors (Days of Raw Materials)	32	57	60	57	57

Source: Company, BP Equities Research

Valuation Ratios

YE March (Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
P/E (x)			3.7x	3.2x	2.6x
P/BV (x)			0.9x	0.7x	0.6x
EV/EBIDTA (x)			1.9x	1.2x	0.6x
EV/Sales			0.3x	0.2x	0.1x
Market Cap./ Sales (x)			0.4x	0.3x	0.3x
Dividend Yield (%)			3.9%	9.4%	11.5%

Source: Company, BP Equities Research

Cash Flow Analysis

YE March (Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
EBITA	1,082	1,313	1,501	1,886	2,205
Less: Adjusted Taxes	234	275	374	472	551
NOPLAT	848	1,038	1,128	1,414	1,653
Plus: Depreciation	66	167	329	381	417
Less: Increase in Working Capital	929	230	205	302	371
Operating Cash flow	(15)	975	1,251	1,492	1,699
Less: Net Capex	510	1,086	680	308	303
Less: Increase in Net Other Assets	(392)	82	(65)	(41)	(156)
FCF From Operation	(133)	(193)	636	1,225	1,552
Less: Inc./(Dec.) in Investment	764	(596)	0	0	0
FCF after Investment	(898)	403	636	1,225	1,552
Plus: Gain/(loss) on Extraordinary Items	0	(10)	0	0	0
Total FCF	(898)	393	636	1,225	1,552

Financing Cash Flow

Interest Exp/(inc) After Tax, Net	8	(44)	(79)	26	(47)
Inc/(dec) in Excess Cash and Marketable Securities	270	243	639	733	1,027
Dec/(Inc) in Debt	(270)	16	(130)	0	0
Dividends	0	154	198	466	571
Share Repurchase/(Issues)	(906)	25	8	0	0
Total Financing Flow	(898)	393	636	1,225	1,552

Source: Company, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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