

Infinite Computer Solutions (India) Ltd

Q3FY12 First cut – Results exceed expectation

Fundamental Grade 3/5 (Good fundamentals)
Valuation Grade 5/5 (CMP has strong upside)

Industry IT Services

Infinite Computer Solutions (India) Ltd's (Infinite's) Q3FY12 revenues in US\$ terms declined ~6% q-o-q, but were broadly in line with CRISIL Research's expectations. Revenues in Indian rupee terms were higher than expected on account of rupee depreciation. In Q3FY12, Infinite's revenues from the high-margin IP leveraged and testing business recorded strong growth. Additionally, lower growth in employee cost (due to q-o-q decline in headcount) and q-o-q decline in other operating cost resulted in strong growth in EBITDA margin, which was higher than we expected and the highest since FY09. Also, higher-than-expected foreign exchange gain resulted in PAT substantially exceeding expectations. We are likely to raise our revenue and earnings estimates for FY12 and FY13. We remain positive on Infinite's long-term growth prospects and maintain the fundamental grade of **3/5**.

Q3FY12 result analysis

- Revenues in US\$ terms declined by ~6% q-o-q (up 7.3% y-o-y) due to 14.7% q-o-q decline in revenue from the top client (33.2% of Q3FY12 revenues). Overall revenues in Indian rupee terms grew by 4.8% q-o-q (21.2% y-o-y) to Rs 2,694 mn aided by rupee depreciation. Revenues from the high-margin IP leveraged and testing business grew by 17.9% q-o-q and constituted 28.8% of overall revenues.
- The company continued to optimise its headcount as number of employees declined q-o-q for the third quarter, partly due to transfer of build operate and transfer contract, in the infrastructure management services segment, to the client. Also, utilisation remained high at 90% vs. 91% q-o-q (82% y-o-y). Due to this, growth in the high-margin IP leveraged and testing business and rupee depreciation, EBITDA margin expanded by 315 bps q-o-q (335 bps y-o-y) to 20%; highest since FY09.
- PAT margin also improved by 264 bps q-o-q (242 bps y-o-y) to 14.6% aided by forex gains of Rs 64 mn (Rs 35 mn q-o-q; loss of Rs 1 mn y-o-y). EPS was Rs 9.2 vs. Rs 7.2 in Q2FY12 and Rs 6.2 in Q3FY11.
- The company now has four clients (three q-o-q) contributing revenues in excess of US\$ 20 mn p.a. and nine clients (eight q-o-q) contributing more than US\$ 5 mn p.a. At the same time, clients contributing more than US\$ 1 mn in revenues have declined to 14 from 15 in the last quarter. During Q3FY12, the company added five new clients.

Valuations: Current market price has strong upside

We continue to use the discounted cash flow method to value Infinite and maintain the fair value of Rs 139. We retain the valuation grade of **5/5**.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	4,900	6,647	8,836	10,157	10,741
EBITDA	585	1,235	1,499	1,726	1,631
Adj PAT	457	840	1,194	1,151	1,047
Adj EPS-Rs	12.0	19.1	27.2	27.1	24.6
EPS growth (%)	166.6	59.6	42.2	(0.4)	(9.0)
Dividend yield (%)	-	-	4.2	4.9	5.5
RoCE (%)	33.3	40.5	31.1	29.2	23.4
RoE (%)	34.6	35.0	32.1	25.1	19.3
PE (x)	16.0	10.3	3.2	3.0	3.4
P/BV (x)	4.8	2.5	0.9	0.7	0.6
EV/EBITDA (x)	12.7	6.1	2.1	1.2	1.0

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

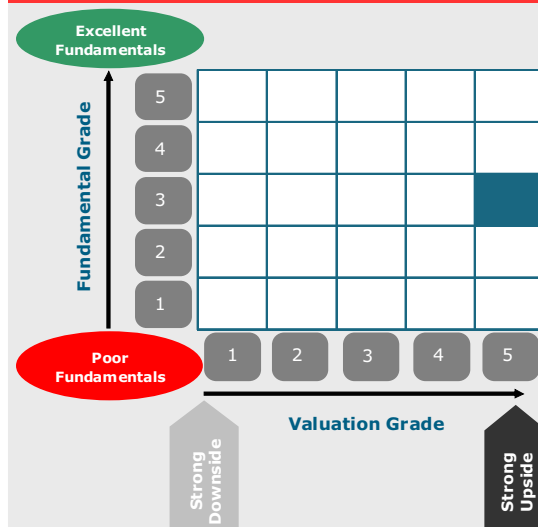


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Fair Value Rs 139

CMP Rs 82

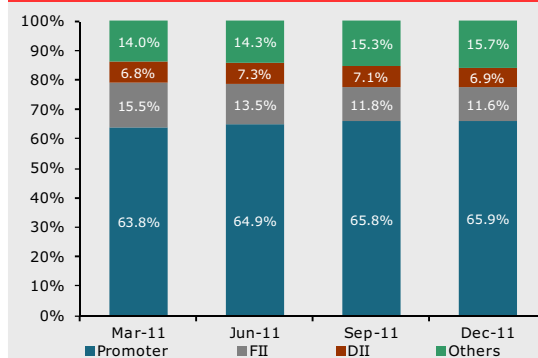
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5390/17773
NSE / BSE ticker	INFINITE
Face value (Rs per share)	10
Shares outstanding (mn)	42.56
Market cap (Rs mn)/(US\$ mn)	3,509/72
Enterprise value (Rs mn)/(US\$ mn)	3,192/65
52-week range (Rs) (H/L)	210/57
Beta	1.01
Free float (%)	34.1%
Avg daily volumes (30-days)	26,010
Avg daily value (30-days) (Rs mn)	2.0

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
INFINITE	13%	31%	-11%	-46%
NIFTY	11%	4%	6%	2%

ANALYTICAL CONTACT

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