

NSE INFOSYSTCH
 BSE 500209

 Reuters INFY.BO
 Bloomberg INFO IN

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 Recommendation **ADD**
 12 month Target **₹3016**
 % Change **11.3%**

Company Brief

Set up in 1981, Infosys is an India-based global IT Services Company that offers end-to-end business solutions that leverage technology across the software life cycle. FY10 revenues were at ₹227.42 bn with 113,500+ employees. Key markets are North America and Europe.

Key Statistics

Volatility	Average
P/E (on EPS 2011E)	24.05x
ROE (5 year Average)	36%
No. of Shares (mn)	571.1
Institutional Holding	34.9%
Current Price	₹ 2708.9
EPS (2010A)	₹ 108.88
EPS (2011E)	₹ 112.61
DPS (2010A)	₹ 25.11
Market Cap (bn)	₹1546.93
Avg. Daily Volume	1,095,282
52 Week H-L	₹2912-2122

Growth Rate for Infosys

	1 yr	3 yrs	5yrs
Sales %	4.8	17.9	26.1
EPS %	5.1	17.5	26.8
Dividend %	6.4	29.5	34.2

PERFORMANCE(6-mon) ■ MARKET ■ SECTOR ■ STOCK



HEADLINES

- Infosys plans to derive a third each of its revenues each from transformation, outsourcing or operations and new engagement models. Geo targets remains 40% each from US (currently at 68%) and Europe (currently at 22%) and 20% from the rest-of-the-world.
- Building local teams in geos, increasing revenue share from APAC markets including India, strengthening the consulting arm, investing in people training and scouting for acquisitions are its key strategies to achieve profitable business expansion.
- Infosys states that growth is back, pricing environment is stable and discretionary work is picking up. However, while bottom up demand is strong, the weak macro environment in US and EU limits any price rise, with clients focusing on short term ROI projects.
- The company is seeing rising demand from the important banking, financial services, and insurance vertical, which was up 8.8% in the June quarter. 13 of the 32 new accounts opened in the latest quarter were from financial services companies.

INVESTMENT RATIONALE

- Over the past few quarters, clients had tended to concentrate on cost reduction initiatives, but of recent there has been an increased interest in more strategic initiatives. Some U.S. customers have started to position themselves for increasing demand, which is a positive. Our revenue growth estimate for FY11 is 9.6%.
- A stronger rupee relative to the U.S. dollar, salary hikes, increased attrition, and pricing pressures are likely to squeeze operating margins in FY11. However, we expect these pressures will be somewhat mitigated by improved productivity measures.
- Our 12-mon price target is based on a peer average P/E multiple of 23.7x 12-month forward EPS estimate of ₹127.31. Risks to our recommendation include increased competition in IT services, resulting in pricing pressures that could erode profit margins; IT budget-cuts by key clients, higher costs for hiring and training employees and the failure of the company's higher-margin services.
- As of the date of writing this report, the stock was trending below its 50-day simple moving average. The sector index and stock were lagging the broader market index over the previous month significantly and are likely to continue to under-perform in the short-term. We have a ADD rating on the stock presently.

Analyst has no holdings in this stock. Please read rating guidelines and important disclosures at the end of this document.

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COMPANY OVERVIEW

For FY09-10, Infosys was India's second largest global IT services company by market cap with its service offerings spanning across business and technology consulting, application services, systems integration, product engineering, custom software development, maintenance, re-engineering, independent testing and validation, IT infrastructure management and business process outsourcing. The company claims to be deriving 97% of its revenues from existing clients.

Besides its global delivery capabilities, Infosys remains committed to building expertise on emerging trends and technologies. The Finacle product suite – Infy's core banking solution is trusted by over 130 banks across 65 countries and addresses world-wide banking needs such as core banking, wealth management, Customer Relationship Management (CRM), Islamic banking and treasury requirements of retail, corporate and universal banking.

With the competition heating up both at home and globally, the company is also adopting new engagement models based on value-based pricing that ensures the maximum return on investments and increased productivity for its clients. The Infosys brand continues to be strong and increasingly recognized worldwide.

INDUSTRY LANDSCAPE

By various estimates the total global IT services market was worth over US\$ 800 billion in 2008 and is estimated to grow at a CAGR of 3.8% over the next 5 years, with the BPO and hosting infrastructure services being the leading growth drivers at CAGRs of 6% and 12% respectively.

While the trend to outsource work to high-skill, low-labour-cost countries like India is likely to sustain, companies operating in India will, besides the threat from other low-cost countries, face increasing challenge from their global peers who now have their operational centres in India as well, accessing the same talent pool, thus leading to an increase in the demand and hence the cost of educated work force. The challenge is however likely to become a constraint only in the longer term, with any near-term pressures on the operating margins being overcome by enhancing operational efficiencies.

As the industry goes through a phase of consolidation with modest core growth-prospects in the near term, larger players with strong cash flows (as are common in this sector) will continue to look at inorganic growth through pertinent acquisitions for service diversification and economical broadening of the talent pool. Infosys BPO (erstwhile Progeon) is an example of such acquisition activity accomplished successfully by Infosys to add business process management to its set of service offerings. Similarly, HCL Technologies and Wipro Technologies acquired Axon and Infocrossing respectively to expand their capabilities in the Enterprise Solutions, Infrastructure Management & BPO domains.

Corporate Information

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Key Officers

N.R. Murthy, Chairman
S. Gopalakrishnan, MD & CEO
S.D. Shibulal, COO
V. Balakrishnan, CFO
T.V. Mohandas Pai, CAO

Board Members

Srinath Batni
David L. Boyles
K. Dinesh
Dr. Omkar Goswami
S. Gopalakrishnan
Sridar Iyenger
T.V. Mohandas Pai
K.V. Kamath
N.R. Narayana Murthy
Jeffrey Sean Lehman
S.D. Shibulal
Deepak M. Satwalekar
Claude Smadja
Dr. Marti G Subrahmanyam

COMPANY FINANCIALS AND KEY RATIOS

Data as of March 31 each year. Currency - INR	2006	2007	2008	2009	2010
KEY P&L DATA Figures in Crores ('0,000,000)					
Revenue (Sales)	9,521	13,893	16,692	21,693	22,742
PBIDT (EBIDT)	3,091	4,391	5,238	7,195	7,861
Depreciation	437	514	598	761	905
PBIT (EBIT or Operating Profit)	2,654	3,877	4,640	6,434	6,956
Net Interest & Other Income	138	370	704	473	943
PBT (Pre-tax Income)	2,792	4,247	5,344	6,907	7,899
Provision for Tax	313	386	685	919	1,681
PAT (Net Income)	2,479	3,861	4,659	5,988	6,218
Total Dividend (excluding Dividend Tax)	1,238	649	1,902	1,345	1,434
No. of Shares (basic)	27.30	55.68	57.14	57.24	57.04
No. of Shares (diluted)	28.08	56.93	57.33	57.34	57.11
KEY BS DATA Figures in Crores ('0,000,000)					
Fixed Assets	1,655	2,806	3,453	4,677	4,946
Other Non-Current Assets	67	92	119	163	436
Cash & Bank Balances	3,429	5,834	6,950	9,695	10,556
Other Current Assets	4,229	4,677	7,464	7,628	11,798
Total Assets	9,380	13,409	17,986	22,163	27,736
Shareholder's Equity / Net Worth	6,966	11,255	13,795	18,254	23,049
Long-Term Debt					
Other Non-Current Liabilities	68	4	0	37	232
Short-Term Debt					
Other Current Liabilities	2,346	2,150	4,191	3,872	4,455
Total Equity & Liabilities	9,380	13,409	17,986	22,163	27,736
PER SHARE DATA					
Earnings per share (EPS)	88.28	67.82	81.27	104.43	108.88
Dividend per share	44.09	11.40	33.18	23.46	25.11
Book Value (BV)	255	202	241	319	404
Price (End of Year, NSE Value)	2,981.4	2,018.7	1,439.9	1,323.9	2,616.0
KEY RATIOS					
Operating Margin	27.9%	27.9%	27.8%	29.7%	30.6%
Return on Assets (ROA)	30.7%	33.9%	29.7%	29.8%	24.9%
Return on Equity (ROE)	40.7%	42.4%	37.2%	37.4%	30.1%
Return on Capital Employed (ROCE)	39.7%	37.7%	38.7%	37.8%	33.9%
Current Ratio	3.26	4.89	3.44	4.47	5.02
Dividend Payout Ratio	49.9%	16.8%	40.8%	22.5%	23.1%
Price to Earnings Multiple, P/E *	33.8	29.8	17.7	12.7	24.0
Price to Book Value, P/BV *	11.7	10.0	6.0	4.2	6.5
Dividend Yield*	1.48%	0.56%	2.30%	1.77%	0.96%
Enterprise Value Multiple, EV / EBIDTA *	25.75	24.84	14.42	9.21	17.22
*based on year-end Price	2006	2007	2008	2009	2010

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VALUATION ESTIMATES

Currency = INR	2006A	2007A	2008A	2009A	2010A	2011E	2012E	2013E
Sales (in Crores)	9,521	13,893	16,692	21,693	22,742	24,928	28,146	33,723
Sales Growth (YoY)	33.5%	45.9%	20.1%	30.0%	4.8%	9.6%	12.9%	19.8%
Net Income (In Crores)	2,479	3,861	4,659	5,988	6,218	6,855	7,853	9,375
% Net Income of Revenue	26.0%	27.8%	27.9%	27.6%	27.3%	27.5%	27.9%	27.8%
Earnings per Share (EPS)	88.28	67.82	81.27	104.43	108.88	120.04	137.50	164.16
EPS Growth (YoY)	31.8%	-23.2%	19.8%	28.5%	4.3%	10.2%	14.6%	19.4%
Dividend per Share	44.09	11.40	33.18	23.46	25.11	26.44	31.38	44.75
Payout Ratio	49.9%	16.8%	40.8%	22.5%	23.1%	22.0%	22.8%	27.3%
P/E	33.77	29.76	17.72	12.68	24.03	21.73	24.12	26.07

PEER GROUP ANALYSIS

Currency: INR (except CTS) Stock (52 Week H / L)*	Mkt Cap (Crores)	Beta	Yield	Recent Price	^Price Change	#NI / Emp^	Operating Margin^	P/E^	EPS^	Payout Ratio^	% Insti. Owners
TCS (883/519)	167,489	0.70	1.15%	856	62.4%	455	27.1%	23.27	32.1	38.1%	13.6%
Infosys Tech (2911/2122)	154,693	0.51	0.90%	2709	27.1%	543	30.1%	24.82	109.2	23.0%	34.9%
Wipro Limited (452/321)	97,119	0.88	0.90%	397	17.3%	453	20.5%	19.59	20.2	17.8%	4.1%
CTS (63.9/33.8) **	1,763	1.12	NA	58.6	68.0%	7.7	18.8%	29.65	23.1	NA	94.8%
HCL Tech (448/280)	27,324	0.88	0.98%	403	34.5%	-	12.7%	21.13	3.7	20.8%	23.6%

^TTM; *BSE Data; **Nasdaq Data, Currency: USD; #Net Income Per Employee (in Thousands); NA - Not Applicable

5-YEAR AVERAGES Stock	Sales Growth	EPS Growth	Dividend Growth	Dividend Yield	Operating Margin	% ROA	% ROI	% ROE
Tata Consultancy Svcs. Ltd.	23.1%	25.8%	37.3%	1.46%	24.7%	31.1%	41.7%	43.7%
Infosys Technologies Limited	26.1%	26.8%	34.2%	1.08%	29.1%	28.9%	35.9%	36.1%
Wipro Limited	27.4%	22.2%	19.1%	1.08%	19.4%	17.9%	24.9%	31.6%
Cognizant Technology Solutions	41.1%	38.3%	NA	NA	18.5%	20.5%	25.0%	25.3%
HCL Technologies Limited	28.8%	13.3%	-	-	16.6%	13.2%	19.3%	21.8%

RECENT NEWS HEADLINES

- Infosys plans to set up two more software centres In Bangalore. – 3 June, 2010
- Simplex Grinnell selects Infosys' Supply Chain Visibility and Collaboration Product Suite – 25 May, 2010
- Infosys enters NASDAQ-OMX. – 24 May, 2010
- Infosys bags US\$150 million (3 year) order from Microsoft for IT infra and App support – 15 April, 2010
- Infosys launches Finacle Treasury in a box framework for integrated treasury system – 11 Mar, 2010
- Infosys gets contract from Elan Pharmaceuticals to set up research information system – 1 Feb 2010
- Infosys partners with Aircel for Mobile Application Store – 5 Jan 2010

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INVESTMENT RATING GUIDELINES

INVESTMENT RATING / RECOMMENDATION	ESTIMATED 12-MONTH STOCK PRICE CHANGE	ESTIMATED 12-MONTH SECTOR OUTLOOK	RECOMMENDED DECISION FOR	
			Current Stockholder	New Investor
BUY	Appreciate over 20%	Out-perform	Take Major Position	Definitely Buy
ADD	Appreciate over 10%	Market-perform / Out-perform	Buy More OR Stay Put	Buy
HOLD	Appreciate over 0%	Market-perform / Out-perform	Stay Put / Watch	Don't Buy
REDUCE	Depreciate upto -5%	Market-perform	Sell Some & Watch Closely	Don't Buy
SELL	Depreciate over -5%	Market-perform / Under-perform	Sell All / Close Position	Don't Buy

In order for a stock to achieve the investment rating stated in the first column of the table above, both of the corresponding criteria mentioned in the second and third columns must be met. Stock price change-specific considerations are with respect to company-centric analysis and comparison with other investment-option peers within the same sector. The Industry Sector Outlook determines separately whether the prospects for the sector are at the very least likely to be better, in-line or worse than those for the broader markets. In India, BSE Sensex, NSE Nifty and other participating sectoral and category indices at these exchanges serve as relevant benchmarks for comparison.

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