

## Infosys analyst meet update—Down But Not Out

**CMP:** Rs.2240  
**Target Price:** Rs.3500  
**Recommendation:** BUY

### Stock Info

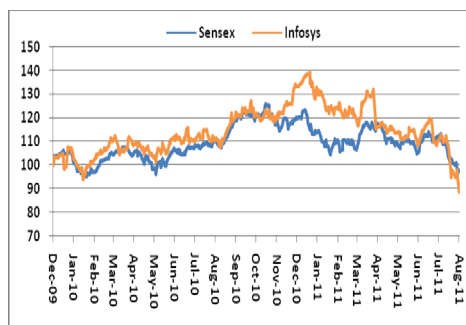
BSE Group	A
BSE Code	500209
NSE Symbol	INFOSYSTCH
Bloomberg	INFO IN
Reuters	INFY.BO
BSE Sensex	16415
NSE Nifty	4922

### Market Info

Market Capital	Rs.128500cr
Equity Capital	Rs.287cr
Avg. Trading Vol.	99415 (Qtly.)
52 Wk High/ Low	3493/2172
Face Value	Rs.5

### Shareholding Pattern (%) (30<sup>th</sup> Jun. 2011)

Promoters	16.0
Domestic Institutions	9.8
Foreign Institutions	52.4
Non Promoters Corp.	7.8
Public & Others	13.9
Govt. Holdings	-



23<sup>rd</sup> August, 2011

### Key Highlights:

- **Demand environment stable:** Our interaction with the management of Infosys during their annual analyst meet revealed that they are not seeing any let up in demand. Though they are witnessing what the management say—"conservatism in spending", which we would like to interpret as—though the clients are not cutting back their IT budgets as of now, however they are going slow in their spending as they keep an eye on the global financial scenario. Thus risk aversion has risen. The Infosys management however put up a brave front by saying that the current situation is temporary and their plan to build a sustainable organisation is right on track.
- **Restructuring complete:** The new CEO Mr.Shibulal in his address indicated that their internal restructuring is complete. They have a sharper go to market strategy in place with their priorities in terms of geographies, verticals and service lines to be addressed clearly cut out. We believe this is positive news for the company as stability at the top level in an organisation generally trickles down to the mid and lower level which in turn helps the workforce to drive up their efficiency.
- **Non-linear initiatives continue:** Infosys continues to work on their non-linear initiatives with special emphasis being put on Finacle. We believe product business is going to be a major driver of the company's revenue in the coming times. Its success is evident from the fact that the proportion of Finacle has made a steady climb from 3.8% in FY06 to 4.9% in FY11. The management expects strong growth in the mobile banking business along with core banking in the coming times.
- **No change in hiring plans:** The management at present has made no changes in their plans, though it was pointed out as far as lateral hiring is concerned they review the situation on a bi-weekly basis. We believe this is an indication of the general cautiousness that has crept into the environment.
- **Outlook & Valuations:** We came out with mixed views from the Infosys meet. On the positive side it was pleasing to see things finally settling down on the restructuring front which will allow the management to concentrate more on their core business. The non-cancellation of projects and the absence of any indication of the same was also positive. We however remain skeptical on the pricing premium that Infosys commands. We believe considering the current economic scenario and aggressive peers, Infosys will have to do away with their pricing premium. Any hesitation on that front on the part of the management may result in the company losing lucrative projects to their rivals. Our channel checks with a number of consultants from various organisation indicates that work is aplenty and the current scenario is distinctly different from 2008 when the number of people on bench swelled due to lack of projects.

We therefore maintain our estimates and our 'BUY' call on the stock though we would now like to associate a 'downside risk' to our target price. The stock is available at attractive valuation and considering the recent depreciation in the Indian rupee we can expect a positive surprise on the earnings front in Q2FY11 which we believe will provide a near-term upside to the stock from current levels.

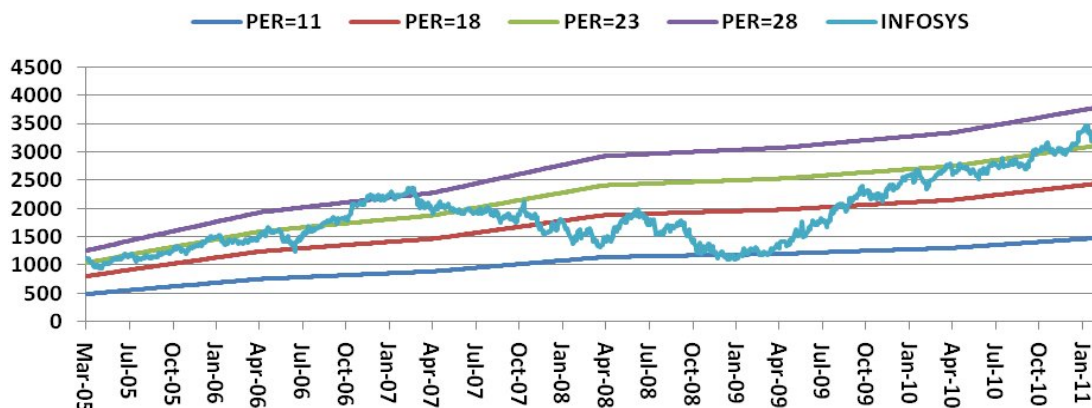
### Financials:

Y/E March, (₹ in Cr)	FY10	FY11	FY12E	FY13E
<b>Net Revenue</b>	<b>22742</b>	<b>27501</b>	<b>31673</b>	<b>35916</b>
<i>Growth %</i>	<i>4.8</i>	<i>20.9</i>	<i>15.2</i>	<i>13.4</i>
<b>Net Profit</b>	<b>6266</b>	<b>6835</b>	<b>7958</b>	<b>8696</b>
<i>Growth %</i>	<i>4.6</i>	<i>9.1</i>	<i>16.3</i>	<i>9.4</i>
<b>EPS</b>	<b>109.8</b>	<b>119.7</b>	<b>138.7</b>	<b>152.2</b>
<b>P/E(x)</b>	<b>20.4</b>	<b>18.7</b>	<b>16.2</b>	<b>14.7</b>
<b>P/BV(x)</b>	<b>5.6</b>	<b>4.9</b>	<b>3.8</b>	<b>3.2</b>
<b>EV/EBITDA(x)</b>	<b>14.9</b>	<b>12.6</b>	<b>10.6</b>	<b>8.7</b>

Source: Arian Research



## PE band



Source: Arihant Research

## Latest Quarterly results

Rs. in cr	Q1FY12	Q1FY11	YoY%chng.	Q4FY11	QoQ%chng.
Income	7485.00	6,198	20.8%	7250	3.2%
Software development expenses	4355	3,443	26.5%	4015	8.5%
<b>Gross Profit</b>	<b>3130</b>	<b>2,755</b>	<b>13.6%</b>	<b>3235</b>	<b>-3.2%</b>
Sales and marketing expenses	398	339	17.4%	400	-0.5%
General and administration expenses	525	456	15.1%	514	2.1%
SG&A	<b>923</b>	<b>795</b>	<b>16.1%</b>	<b>914</b>	<b>1.0%</b>
<b>Operating profit (EBIDTA)</b>	<b>2207</b>	<b>1,960</b>	<b>12.6%</b>	<b>2321</b>	<b>-4.9%</b>
Interest	0	-	0.0%	0	0.0%
Depreciation and amortization	222	205	8.3%	219	1.4%
Operating profit after Int., Dep & Amort	<b>1985</b>	<b>1,755</b>	<b>13.1%</b>	<b>2102</b>	<b>-5.6%</b>
Other income	443	239	85.4%	415	6.7%
Provision for investments	0	-	0.0%	0	0.0%
Profit before tax, min. int. and excep. items	<b>2428</b>	<b>1,994</b>	<b>21.8%</b>	<b>2517</b>	<b>-3.5%</b>
Provision for taxation	673	506	33.0%	699	-3.7%
Profit after tax but before min. int. & excep items	<b>1755</b>	<b>1,488</b>	<b>17.9%</b>	<b>1818</b>	<b>-3.5%</b>
<i>effective tax rate%</i>	<i>27.72%</i>	<i>25.38%</i>		<i>27.77%</i>	
Extraordinary income	0	0		0	0
Minority interest	0	0		0	0
<b>Net profit after tax, min. int. &amp; excep. items</b>	<b>1755</b>	<b>1,488</b>	<b>17.9%</b>	<b>1818</b>	<b>-3.5%</b>
<b>EPS</b>	<b>30.14</b>	<b>26.06</b>	<b>15.7%</b>	<b>31.82</b>	<b>-5.3%</b>



## Profit &amp; Loss Statement (Consolidated)

Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>22742</b>	<b>27501</b>	<b>31673</b>	<b>35916</b>
<i>YoY%</i>	<i>4.8</i>	<i>20.9</i>	<i>15.2</i>	<i>13.4</i>
Software dev. exp.	12071	15054	17915	20025
<b>Gross Profit</b>	<b>10671</b>	<b>12447</b>	<b>13758</b>	<b>15891</b>
S&M exp	1184	1512	1628	2085
G&A expense	1626	1967	2150	2350
<b>EBIDTA</b>	<b>7861</b>	<b>8968</b>	<b>9980</b>	<b>11456</b>
<i>EBIDTA%</i>	<i>34.6</i>	<i>32.6</i>	<i>31.5</i>	<i>31.9</i>
Depreciation	905	854	912	1100
Other income	934	1211	1818	1505
Provision for inv.	-9	0	0	0
Tax	1681	2490	2938	3165
<i>Effective tax rate%</i>	<i>21.3</i>	<i>26.7</i>	<i>26.9</i>	<i>26.7</i>
Exceptional item	48	0	0	0
Profit before min. int.	6266	6835	7948	8696
Minority int.	0	0	0	0
<b>Net Profit</b>	<b>6266</b>	<b>6835</b>	<b>7948</b>	<b>8696</b>
<i>YoY%</i>	<i>4.6</i>	<i>9.1</i>	<i>16.3</i>	<i>9.4</i>

## Cash Flow Statement (Consolidated)

Y/E March (Rs.in cr)	FY10	FY11	FY12E	FY13E
Profit before tax, min.int., & exceptional item	7899	9325	10886	11861
Add: Depreciation	905	854	912	1100
Int. & Dividend income	-881	-1154	-1818	-1505
Other items	74	9	-	-
(Inc.)/Dec in WC	-40	-1428	-334	-677
Direct Taxes	-1753	-2846	-2938	-3165
<b>Net cash provided by operating activities</b>	<b>6204</b>	<b>4752</b>		<b>7614</b>
(Inc)/ Dec in FA	-675	-1305	-1100	-1150
(Inc)/Dec in investments	-3698	3558	0	0
Other items	753	1145	1818	1505
<b>Cash Inflow/ (outflow) from Investments</b>	<b>-3620</b>	<b>3398</b>	<b>718</b>	<b>355</b>
Proceeds from exercise of stock options	89	24	-	-
Dividend Paid	-1346	-3140	-1723	-1723
Dividend tax paid	-228	-524	-300	-300
<b>Cash Inflow/ (outflow) from Financing</b>	<b>-1485</b>	<b>-3640</b>	<b>-2023</b>	<b>-2023</b>
Effect of change in exchange rate	-31	45	0	0
<b>Net Cash Inflow/ (outflow)</b>	<b>1068</b>	<b>4555</b>	<b>5403</b>	<b>5946</b>
Cash at beginning	10993	12111	16666	22069
Add: Opening bal. of cash on consol. of controlled trust	50	0	0	0
<b>Net Cash carried forward</b>	<b>12111</b>	<b>16666</b>	<b>22069</b>	<b>28016</b>

## Balance sheet statement (consolidated)

Y/E March (Rs. in cr)	FY10	FY11	FY12E	FY13E
<b>Sources of Funds:</b>				
Eq. capital(FV-Rs.5)	286	286	286	286
Reserves & Surplus	22763	25690	33186	39859
<b>Shareholder's equity</b>	<b>23049</b>	<b>25976</b>	<b>33472</b>	<b>40145</b>
Deferred tax liability	232	176	176	176
Minority int.	0	0	0	0
<b>Total Liabilities</b>	<b>23281</b>	<b>26152</b>	<b>33648</b>	<b>40321</b>
<b>Application of funds:</b>				
Gross block	7939	8501	9601	10751
Less: Acc. depreciation	2893	3266	4478	5278
<b>Net Block</b>	<b>4946</b>	<b>5235</b>	<b>5423</b>	<b>5473</b>
CWIP	409	525	525	525
Investments	3712	144	144	144
Deferred tax asset	432	497	497	497
<b>Current Assets:</b>				
Debtors	3494	4653	5380	6100
Cash & bank balance	10556	15095	22069	28016
Loans & Advances	4187	5320	5500	6200
<b>Total</b>	<b>18327</b>	<b>25068</b>	<b>32949</b>	<b>40316</b>
Current Liabilities	2343	2677	3090	3485
Provision	2112	2640	2800	3150
<b>Net Current Asset</b>	<b>13782</b>	<b>19751</b>	<b>27059</b>	<b>33682</b>
<b>Total Asset</b>	<b>23281</b>	<b>26152</b>	<b>33648</b>	<b>40321</b>

## Ratios

Y/E March	FY10	FY11	FY12E	FY13E
<b>Performance Ratios</b>				
EBIDTA %	34.6	32.6	31.6	31.9
Net Profit %	27.6	24.9	25.1	24.2
Sales per share (SPS)	398.2	481.5	554.5	628.8
Price/SPS	5.6	4.7	4.0	3.6
Dividend %	500	1200	500	500
Cash per share	212.0	291.8	386.4	490.5
Assets Turnover	0.9	1.1	0.9	0.9
<b>Du Pont Analysis</b>				
PAT / Net Sales	0.3	0.3	0.3	0.2
Net Sales / Assets	0.9	1.0	0.9	0.9
Assets / Equity	1.0	1.0	1.0	1.0
ROE %	27.2	26.3	23.7	21.7
<b>Valuation Ratios</b>				
Diluted EPS	109.7	119.4	138.5	152.2
Cash EPS	414.3	496.4	570.5	648.0
P/E	20.4	18.7	16.2	14.7
P/BV	5.6	4.9	3.8	3.2
EV/ EBIDTA	14.9	12.6	10.6	8.7
EV/ Sales	5.2	4.1	3.3	2.8
ROCE%	33.8	34.3	29.7	28.4

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

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