

Infosys – Uncertainty persists, but confident of achieving guidance

CMP: **Rs.2498**
Target Price: **Rs.2811**
Recommendation: **Accumulate**

Stock Info

BSE Group	A
BSE Code	500209
NSE Symbol	INFOSYSTCH
Bloomberg	INFO IN
Reuters	INFY.BO
BSE Sensex	17094
NSE Nifty	5207

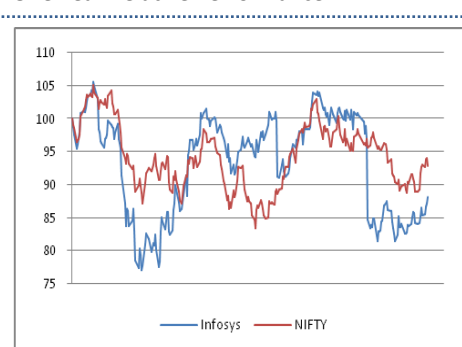
Market Info

Market Capital	Rs.144794cr
Equity Capital	Rs.287cr
Avg. Trading Vol.	110950 (Qtly.)
52 Wk High/ Low	3020/2169
Face Value	Rs.5

Shareholding Pattern (%) (31st Mar. 2011)

Promoters	16.0
Domestic Institutions	17.5
Foreign Institutions	52.4
Non Promoters Corp.	0.5
Public & Others	13.9
Govt. Holdings	-

One Year Relative Performance:



14th June, 2012

Generating Wealth. Satisfying Investors.

■ Ramp downs in Q4FY12 would have a tail impact:

Company have experienced several ramp downs in the later part of the quarter Q4FY12 which is having a tail impact spilled in the present quarter too. We believe that this scenario has not been improved since then largely on the Financial Services and Insurance (FSI) segment where budget cuts of 15-20% were experienced in some accounts. Company gains majorly its business from North America (NA) region for the FSI segment. Our discussions with the management indicate that the confidence of clients is still low majorly in the Investment Banking and Capital markets segment. However, we strongly believe that the present guidance of 0-1% growth on the top line would be achievable as the above factors have been already discounted.

■ Concerns largely persists to FSI segment and North America:

FSI segment which contributes nearly 34% of revenues is still experiencing a quarter back uncertain scenarios majorly in the NA region whereas the traction in the other segments like manufacturing and Hi-Tech is largely in line. In the geographical perspective, this quarter company will experience a good growth from the UK region whereas the continental Europe is still need to get on to the track.

■ Uncertainty questioning the discretionary spends:

Company has shown a performance of 1.3% CQGR (Q1FY12-Q4FY12) in Consulting and SI segment which is lower than company's overall growth of 2.0% CQGR vs previous year growth of 8.5% CQGR (Q1FY11-Q4FY11) which is above the company's overall growth of 5.7% CQGR for the same period. We believe the company to face some near time hurdles on the projects related to the discretionary in nature discounting the uncertain macro with clients delay decisions.

■ Reinvestments in business nullify the currency gains:

Company has guided a drop in the operating margins by 200 bps for Q1FY13 where the conversion rate assumed was at @Rs. 50.8. Even after the continuous depreciation in the rupee by nearly 5.5%, company holds its guidance at similar levels on a view that it would reinvest the benefit back into the business. However we expect the margins to improve on sequential basis for Q1FY13 on the back of weaker currency, zero salary hikes (Attrition is in control for this quarter Q1FY13 till date) and improving utilization.

■ View:

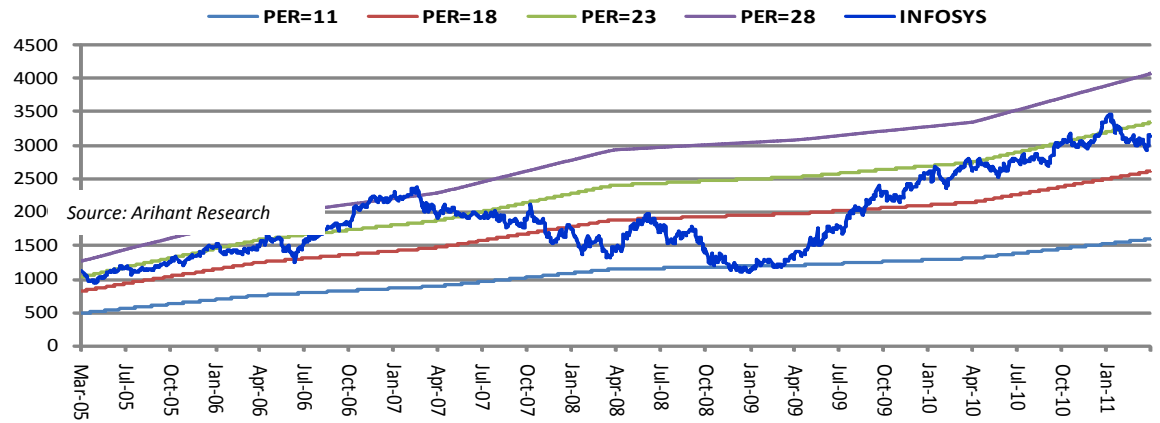
The guidance by the company of 8%-10% in USD terms which is lower than the NASSCOM estimates of 11-14% for overall industry is very much achievable according to us. We believe that the later part year of FY13 the company can deliver a growth greater than its guidance of 3-4% per quarter. With the utilization improvement, increase in the Fixed Price Project (FPP) portion and zero salary hikes along with the currency acting as a major tail wind would boost the margins in the coming quarter. We are also positive on the company's strategy of moving the portfolio towards the Products, Platforms and Solutions (PPS) and increasing the contribution from the Consulting and System Integration would boost up the productivity and support the prevailing margins. We reiterate our positive stance on INFY with an **ACCUMULATE** rating at a target price of Rs. 2811, which discount FY13(E) and FY14(E) earnings of Rs 163.9 and Rs 180.2 at valuations of 17.2(x) and 15.6(x). At CMP Rs 2498, stock trades at 15.2(x) and 13.8(x) on FY13 and FY14 earnings which is at a large discount to its historical average valuations of 18.4(x).

Financials:

Y/E March, (Rs. in Cr)	FY11	FY12	FY13E	FY14E
Net Revenue	27501	33734	39585	44571
<i>Growth %</i>	<i>20.9</i>	<i>22.7</i>	<i>17.3</i>	<i>12.6</i>
Net Profit	6835	8349	9365	10296
<i>Growth %</i>	<i>9.1</i>	<i>22.2</i>	<i>12.2</i>	<i>9.9</i>
EPS	119.7	145.5	163.9	180.2
P/E(x)	20.8	17.2	15.2	13.8
P/BV(x)	5.3	4.1	3.3	2.8



PE band





Financials:

Profit & Loss Statement (Consolidated)				
Y/E March (Rs Cr)	FY11	FY12E	FY13E	FY14E
Net Sales	27501	33734	39585	44571
YoY%	20.9	22.7	17.3	12.6
Software dev. exp.	15054	18879	22450	25825
Gross Profit	12447	14855	17135	18746
S&M exp	1512	1757	1885	1950
G&A expense	1967	2357	2715	2830
EBIDTA	8968	10741	12535	13966
EBIDTA%	32.6	31.8	31.7	31.3
Depreciation	854	929	990	1000
Other income	1211	1904	1580	1655
Provision for inv.	0	0	0	0
Tax	2490	3367	3760	4325
Effective tax rate%	26.7	28.7	28.7	29.6
Exceptional item	0	0	0	0
Profit before min. int.	6835	8349	9365	10296
Minority int.	0	0	0	0
Net Profit	6835	8349	9365	10296
YoY%	9.1	22.2	12.2	9.9

Cash Flow Statement (Consolidated)				
Y/E March (Rs. in cr)	FY11	FY12E	FY13E	FY14E
Profit before tax, min.int., & exceptional item	9325	11716	13125	14621
Add: Depreciation	854	929	990	1000
Int. & Dividend income	-1154	-1904	-1580	-1655
Other items	9	-	-	-
(Inc.)/Dec in WC	-1428	-498	-766	-340
Direct Taxes	-2846	-3367	-3760	-4325
Net cash provided by operating activities	4752	6876	8009	9301
(Inc)/ Dec in FA	-1305	-1100	-1150	-1010
(Inc)/Dec in investments	3558	0	0	0
Other items	1145	1904	1580	1655
Cash Inflow/ (outflow) from Investments	3398	804	430	645
Proceeds from exercise of stock options	24	-	-	-
Dividend Paid	-3140	-1723	-1723	-1723
Dividend tax paid	-524	-300	-300	-300
Cash Inflow/ (outflow) from Financing	-3640	-2023	-2023	-2023
Effect of change in exchange rate	45	0	0	0
Net Cash Inflow/ (outflow)	4555	5657	6416	7923
Cash at beginning	12111	16666	22323	28739
Add: Opening bal. of cash on consol. of controlled trust	0	0	0	0
Net Cash carried forward	16666	22323	28739	36662

Balance sheet statement (consolidated)				
Y/E March (Rs. in cr)	FY11	FY12E	FY13E	FY14E
Sources of Funds:				
Eq. capital(FV-Rs.5)	286	286	286	286
Reserves & Surplus	25690	33587	40929	49203
Shareholder's equity	25976	33873	41215	49489
Deferred tax liability	176	176	176	176
Minority int.	0	0	0	0
Total Liabilities	26152	34049	41391	49665
Application of funds:				
Gross block	8501	9601	10751	11761
Less: Acc. depreciation	3266	4195	5185	6185
Net Block	5235	5406	5566	5576
CWIP	525	525	525	525
Investments	144	144	144	144
Deferred tax asset	497	497	497	497
Current Assets:				
Debtors	4653	5730	6724	7571
Cash & bank balance	15095	22323	28739	36662
Loans & Advances	5320	5500	6200	6200
Total	25068	33553	41663	50433
Current Liabilities	2677	3276	3854	4360
Provision	2640	2800	3150	3150
Net Current Asset	19751	27477	34659	42923
Total Asset	26152	34049	41391	49665

Ratios				
Y/E March	FY11	FY12E	FY12E	FY14E
Performance Ratios				
EBIDTA %	32.6	31.8	31.7	31.3
Net Profit %	24.9	24.8	23.7	23.1
Sales per share (SPS)	481.5	590.6	693.1	780.3
Price/SPS	5.4	4.1	3.5	3.1
Dividend %	1200	940	500	500
Cash per share	291.8	390.8	503.1	641.9
Assets Turnover	1.1	0.9	0.9	0.9
Du Pont Analysis				
PAT / Net Sales	0.3	0.3	0.2	0.2
Net Sales / Assets	1.1	0.9	0.9	0.9
Assets / Equity	1.0	1.0	1.0	1.0
ROE %	26.3	24.7	22.7	20.8
Valuation Ratios				
Diluted EPS	119.4	145.6	163.9	180.2
Cash EPS	138.1	166.6	185.9	202.9
P/E	21.6	16.5	14.7	13.3
P/BV	5.7	4.1	3.3	2.8
EV/ EBIDTA	14.8	10.7	8.7	7.2
EV/ Sales	4.8	3.4	2.7	2.3
ROCE%	34.3	31.6	30.3	28.1

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Stock Rating Scale

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

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