

CMP - ₹2588

Infosys Ltd
Re-iterate HOLD

Re-iterate TP: ₹2945

Market Data

Bloomberg Code	INFO IN
Reuters Code	INFY.BO
SENSEX	16037
NIFTY	4931
Dividend Yield (%)	2.3
52 Week High/ Low(₹)	3390/2161
Equity Capital(₹ mn)	2860
Face Value (₹)	5
Market Cap (₹ mn)	1486420
Avg. 10 day Vol. NSE	130750

Source: Company, R K Global Research, as on 12th Jan'2012

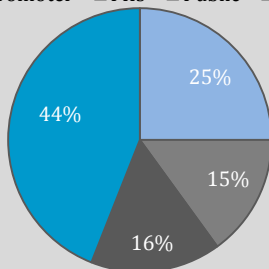
Key Market Ratios

TTM Latest EPS (₹)	112
TTM Book Value (₹)	427
TTM PE (x)	28
TTM P/BV (x)	7.5
TTM EV/EBIDTA (x)	18
EV/TTM Sales (x)	7
Mcap/TTM Sales (x)	7.3

Source: Company, R K Global Research, as on 31st Dec'11

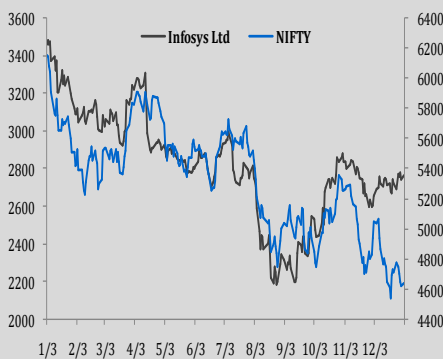
Share-Holding Pattern (%)

■ Promoter ■ FIIs ■ Public ■ Others



Source: Ace Equity, R K Global Research, as on 31st Dec'11

Infosys Ltd v/s CNX NIFTY



Source: NSE, Ace Equity & R K Global Research

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Infosys Ltd reported ~31% YoY & ~15% QoQ (better than our expected numbers, at ~22% YoY & ~7% QoQ) in the third quarter of FY'12 but, in fact, leaving aside the dramatic decline in the INR, the third quarter's results would have been close to our projected numbers. The company disappointed with its USD revenue guidance (~16-17% growth; EPS at ~₹42) for Q4FY'12 and cumulatively for FY'12, stating myriad global business outlook, but we don't think it is going to have a significant impact ahead

Infosys reported a very robust Q3FY'12 performance, solely over depreciating INR. The company's revenue for the quarter stood at ₹92,980 mn (USD 1,806 mn, ~3.4% in reported currency terms & ~4.4% in constant currency terms), up by ~31% YoY & ~15% QoQ. The company's PAT stood at ₹23,720 mn, up by ~33% YoY, in comparison to our forecast of ~22% growth. Infosys's overall looked rosy this Q as the company maintained good client additions. The company has added one of the largest numbers of clients this quarter, 49 new clients have been added and six of them are in Fortune 500. Infosys's revenue productivity has gone up again this quarter by ~0.8%. If we look at YoY, Infosys's revenue productivity is up by ~5%. That means even in a very tough environment the company has been able to maintain the quality of revenue, aided by blended pricing at ~0.8%. On 9M basis, Infosys's revenue productivity has gone up by ~6%.

EBIDTA improved superbly, Margins remained top-notch at ~31%

The company's EBIDTA grew by ~34% and maintained margins at ~31% (matched our margins expectation) over INR dep. As Infosys's margins benefitted by ~4% in the period, where INR depreciated by ~11%. Moreover, the company also benefitted from operations on SEZ that reduced the tax liability by ~13%. Infosys's utilization remains at ~76%, leaves enough rooms of opportunity, considering new client contracts.

Valuation & Outlook: Chances of short-term material impacts

We believe that FY'13E will bring much better performance than FY'12E, over global IT spends improvement as EU & US improves, aided by APAC. At CMP, Infosys trades at a P/E & P/BVPS of ~13.6x & BVPS of ~4.0x of FY'13E EPS of ₹191 and ₹651. We re-iterate **HOLD**, re-affirming on our earlier TP of ₹2,945 (with an upside potential of ~12% from current levels), factored over P/E** & P/BVPS*** of ~15.5x and ~4.5x of FY'13E EPS of ₹191 and ₹651.

Desc. (₹ mn)	Q3FY'12E	Q3FY'12A	VAR (%)	Q3FY'11A	YoY (%)	Q2FY'12A	QoQ (%)
Revenues	86,888	92,980	7	71,060	31	80,990	15
Cost of Sales	14,162	15,790	11	11,190	41	13,830	14
Employee Cost	47,022	48,400	3	38,400	26	44,680	8
Op. Expenses	61,184	64,190	5	49,590	29	58,510	10
EBIDTA	25,704	28,790	12	21,470	34	22,480	28
Other Income	4,081	4,420	8	2,900	52	4,200	5
PBIT	29,785	33,210	11	24,370	36	26,680	24
Tax	8,030	9,490	18	6,570	44	7,620	25
PAT	21,755	23,720	9	17,800	33	19,060	24
Basic (₹)	38	41	9	31	33	33	24
Diluted (₹)	37	41	12	31	33	33	25

Source: Company, R K Global Research Estimates (E) for Q3FY'12E
P/E & *P/BVPS Computed on ₹2,588, as on 12th Jan'2012

Revenues by Currency Types

Reported Revenues	Q1FY'11	Q2FY'11	Q3FY'11	Q4FY'11	Q1FY'12	Q2FY'12	Q3FY'12
Revenue (USD mn)	1,358	1,496	1,585	1,602	1,671	1,746	1,806
Sequential Growth, QoQ (%)	4.8	10.2	6	1.1	4.3	4.5	3.4
Annual Growth, YoY (%)	21	29.6	28.7	23.6	23	16.7	13.9

Constant Currency QoQ	Q1FY'11	Q2FY'11	Q3FY'11	Q4FY'11	Q1FY'12	Q2FY'12	Q3FY'12
Revenue (USD mn)	1,374	1,485	1,566	1,597	1,651	1,754	1,823
Sequential Growth (%)	6	9.4	4.7	0.8	3.1	5	4.4

Constant Currency YoY	Q1FY'11	Q2FY'11	Q3FY'11	Q4FY'11	Q1FY'12	Q2FY'12	Q3FY'12
Revenues (USD mn)	1,354	1,501	1,588	1,585	1,615	1,707	1,803
Annualized Growth (%)	20.7	30.1	28.9	22.3	18.9	14.1	13.8

Source: Company, R K Global Research

Revenues by Services Offerings

Services Lines (%)	Quarter Ended		LTM	
	Q3FY'12	Q2FY'12	Q3FY'11	Q3FY'12
Business IT Services	64.3	64.3	62.6	63.6
Application Development	17.1	17.1	15.6	16.6
Application Maintenance	21.8	21.6	22.5	21.9
Infrastructural Management	6.1	5.8	6	6
Testing Services	7.9	8.2	7.6	7.7
Business Process Management	5.2	5.4	5.6	5.4
Product Engineering Services [#]	3.6	3.4	2.5	3.2
Others [*]	2.6	2.8	2.8	2.8
Consulting & System Integration	30.6	31.2	31.8	31.3
Products, Platforms & Solutions	5.1	4.5	5.6	5.1
Products	4.8	4.2	5.3	4.8
Others [*]	0.3	0.3	0.3	0.3
Total	100	100	100	100

^{*}Reported under the header of "Others", for FY'11

[#]Earlier shown under the header, Products, Platforms & Solutions

Revenue by Industry segments

Revenue By Industry (%)	Quarter Ended			LTM	
	Q3FY'12	Q2FY'12	Q3FY'11	Q3FY'12	Q3FY'11
BFSI	35.3	35.3	36.2	35.4	35.7
Banking & Financial Services	27.9	28.2	27.8	28.1	27.4
Insurance	7.4	7.1	8.4	7.3	8.3
Manufacturing	20.4	20.2	19.6	20.3	19.5
Retail & Lifesciences	23.1	22.9	20.9	22.6	20.1
Retail & CPG	15.2	15.6	14.5	15.4	13.8
Transportation & Logistics	2	1.7	1.8	1.9	1.8
Life Sciences	4.1	3.8	3.6	3.8	3.5
Healthcare	1.8	1.8	1	1.5	1
Energy Utilities Communication	21.2	21.6	23.3	21.7	24.7
Energy & Utilities	6	5.7	6.1	5.8	6.1
Telecom	9.8	10.4	12.5	10.7	13.7
Others	5.4	5.5	4.7	5.2	4.9
Total	100	100	100	100	100

Source: Company, R K Global Research

Revenue by Geographical Segment

Geographies (%)	Quarter Ended			LTM	
	Q3FY'12	Q2FY'12	Q3FY'11	Q3FY'12	Q3FY'11
North America	63.7	65.3	64.7	64.2	65.9
European Union	22.6	20.5	21.8	21.6	21.6
India	2.1	2.2	2.2	2.4	1.9
Rest of the World	11.6	12	11.3	11.8	10.6
Total	100	100	100	100	100

Source: Company, R K Global Research

Revenue by Project Type

Revenue By Project Type* (%)	Quarter Ended			LTM	
	Q3FY'12	Q2FY'12	Q3FY'11	Q3FY'12	Q3FY'11
Fixed Time	40.9	37.7	41.2	39.6	39.9
Time & Materials	59.1	62.3	58.8	60.4	60.1
Total	100	100	100	100	100

*Excluding Products

Source: Company, R K Global Research

Operating & Performance Metrics: Parameters

E&U (%)	Quarter Ended			LTM	
	Q3FY'12	Q2FY'12	Q3FY'11	Q3FY'12	Q3FY'11
Effort					
Onsite	24.8	25.2	24.5	25	23.7
Offshore	75.2	74.8	75.5	75	76.3
Revenue					
Onsite	49.5	49.9	49.3	49.8	48.5
Offshore	50.5	50.1	50.7	50.2	51.5
Utilization					
Including Trainees	69.9	70.2	72.6	69.5	72.4
Excluding Trainees	77.4	77.3	80.7	76.2	79.5

Source: Company, R K Global Research

Employee Metrics: Employee Addition, Retention & Attrition

Performance Metrics (Absolute No.)	Quarter Ended			Year Ended	
	Q3FY'12	Q2FY'12	Q3FY'11	Q4FY'11	Q4FY'10
Gross Addition	9,655	15,352	11,067	43,120	27,639
Lateral Addition	3,863	2,318	5,212	15,883	4,895
Attrition	6,389	7,090	5,756	26,096	18,693
Net Addition	3,266	8,262	5,311	17,024	8,946
Attrition (%) LTM*	15.4	15.6	17.5	17	13.4

Source: Company, R K Global Research

Infosys Ltd, Financials: Reported & Forecasted; FY'12E & FY'13E

Income Statement (₹ mn)				
Descriptions	FY'10	FY'11	FY'12E	FY'13E
Total Revenue	211400	275010	340911	423373
Total Expenditure	137810	194190	246991	298334
EBIDTA (Excl OI)	73590	80820	93921	125039
Other Income	9220	11470	17483	19849
EBIDTA	82810	92290	111404	144888
PBDT	82790	92280	111404	144888
Depreciation	8070	7400	12308	15322
PBT(OI)	74720	84880	99096	129566
PBT	74720	84880	99096	129566
Income Tax	17170	23780	14042	19822
Profit After Tax	57550	61100	85054	109744

Key Financial & Operating Ratios				
Description	FY'10	FY'11	FY'12E	FY'13E
Per Share (₹)				
Adjusted EPS	100	112	148	191
CEPS	114	125	170	218
DPS	29.0	70.0	48.0	67.0
Book value	384	427	527	651
Margin Ratios (%)				
PBIDTM	35	29	28	30
EBIDTM	39	34	33	34
Pre-Tax Margin	35	31	29	31
PATM	27	22	25	26
CPM	35	31	29	31
Performance Ratios (%)				
ROA	26	25	28	29
ROE	26	25	28	29
ROCE	41	41	37	39
Sales/FA	3.3	4.0	3.4	3.5
Operating/Efficiency Ratios (%)				
Revenue Growth	4	30	29	24
EBIDTA Growth	13	10	16	33
EBIT Growth	12	11	21	30
PAT Growth	(1)	6	39	29
EPS Growth	(1)	6	39	29
Relative Valuation Ratios (x)				
EV/EBIDTA	17.0	18.0	16.0	21.0
EV/Sales	7.0	7.0	7.0	10.0
Mcap/Sales	7.0	7.0	8.0	8.0
P/BVPS***	7.0	8.0	5.0	4.5
P/E**	26.0	28.0	17.5	15.5

Source: Company, R K Global Research Estimates

P/E & *P/BVPS, Computed as per FY'12E and FY'13E EPS & BVPS

Balance Sheet (₹ mn)				
Descriptions	FY'10	FY'11	FY'12E	FY'13E
Sources Of Funds				
Share Capital	2870	2870	2870	2870
Total Reserves	217490	242140	299534	370816
Shareholder's Funds	220360	245010	302404	373686
Total Liabilities	220360	245010	302404	373686
Application Of Funds				
Gross Block	63570	69340	100828	125217
Less: Acc. Dep.	25780	28780	41088	56410
Net Block	37790	40560	59740	68806
CWIP	4090	4990	5246	5492
Cash At Bank	97970	136650	116091	148906
Investments	46260	13250	33546	44590
Total CA	169390	227440	227053	291787
Total CL	37980	43530	24999	39192
Net CA	131410	183910	202053	252595
Def. Tax/Liab.	810	2300	1819	2202
Total Assets	220360	245010	302404	373686

Cash Flow Statement (₹ mn)				
Descriptions	FY'10	FY'11	FY'12E	FY'13E
Cash Flow From Operating Activities				
EBDIT	82810	92290	111404	144888
Changes in CA	(5880)	(19370)	(20172)	(31920)
Changes in CL	4930	5550	(18531)	14192
Changes In WC	(950)	(13820)	(38702)	(17727)
Net Cash	81860	78470	72701	127161
Taxes Paid	17170	23780	14042	19822
Cash: Operations	64690	54690	58660	107339
Cash Flow From Investment Activities				
CAPEX	(1650)	(6670)	(31744)	(24635)
Investments	(36310)	(36309)	(20296)	(11044)
Cash: Investment	(37860)	26340	(52040)	(35678)
Cash Flow From Financing Activities				
Dividends Paid	(16740)	(40130)	(27660)	(38462)
Others	(2710)	(720)	Nil	Nil
DTL & Misc. Expen.	210	(1490)	481	(383)
Cash From Financing	(19250)	(42350)	(27179)	(38845)
Cash & Equivalents	7580	38680	(20559)	32815
Beginning Balance	90390	97970	136650	116091
Increase In Cash	7580	38680	(20559)	32815
Closing Balance	97970	136650	116091	148906

For Suggestions, clarifications & your valuable feedback write back to us at:

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Rating Criteria

- BUY** Stock to generate return above 15% from CMP over the next 12 months period
HOLD Stock to generate return between 0-15% from CMP over the next 12 months period
SELL Stock to generate less than 0% from CMP over the next 12 months period

Coverage Terminology

- IC = Initiating Coverage
 RU = Result Update
 EU = Event Update
 NC = Not Covered

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