

Institutional Equities
 India Research

Infosys

QUARTERLY REVIEW

 Bloomberg: INFO IN
 Reuters: INFY.BO

BUY

Already factors in slow H1CY12; Maintain "BUY"

In Q3FY12, Infosys' revenues grew 14.8% QoQ in INR term and 3.4% QoQ in USD term (4.4% in constant currency term), which was at the bottom end of guidance of 3.4%-5.4% for the quarter. Volume growth of 3% QoQ was below expectations, while the blended pricing rose 0.8% QoQ (in constant currency term). Margins improved 265bps sequentially on account of depreciating INR. We maintain our "BUY" recommendation on the stock with reduced target price of Rs. 3,100 per share from Rs. 3,300 earlier.

- Quarterly Highlights:** 1) Pricing was up 2.3% QoQ in constant currency for onsite projects. 2) Attrition was at 15.4% and net addition was low at 3,266 (8,262 in Q2), but lateral addition was higher at 3,863 (2,318 in Q2). 3) Utilisation (including trainees) was lower at 67.6% (68.5% in Q2). 4) Performance across Geographies: Europe saw strong growth of 16.8% in constant currency; Americas up only 1.1%. 5) Top clients' contribution (4.1% of revenue) de-grew 7.7%. 6) Performance across Verticals: Manufacturing grew 5.7% in constant currency, RCL and BFSI grew 5.3% and 4%, respectively. 7) Cash & Equivalents stood at US\$3.68 bn
- USD Revenue – Q4FY12 Guidance Disappoints;** FY12 Guidance Slashed
 Infosys guided to a flat revenue growth for Q4FY12, which is disappointing, lowering FY12 US\$ revenue guidance to 16.4% (vs our expectation of 17-17.5%). However, the EPS guidance was revised up to Rs. 147 (from Rs. 143-145 earlier). Infosys is guiding to USD revenue growth of 0%-0.2% for Q4FY12, which again was below expectation. Infosys sees CY12 budget from flattish to slightly negative. Its Management indicated that the clients, despite having budgets, are deferring the spending due to macro-economic uncertainty.
- Outlook & Valuation -** We raise our FY12/13/14E earnings estimates by 3.6%/3.7%/3.3%, respectively, to factor in lower currency re-sets, which is partly being offset by lower expected revenue growth trajectory. We reduce our target to Rs. 3,100, implying 18.5x Mar'13 EPS (20.5x earlier) to account for higher macro environment concerns. Risks Higher exposure to consulting/package implementation compared to peers may place it at relatively higher risk. Lower-than-expected demand ramp up in key areas like the US.

Recommendation

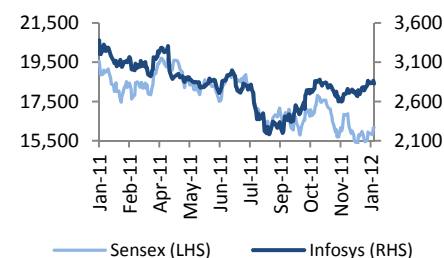
CMP:	Rs2,588
Target Price:	Rs3,100
Previous Target Price	Rs3,300
Upside (%)	20

Stock Information

Market Cap. (Rs bn / US\$ mn)	1,486/28,751
52-week High/Low (Rs)	3,390/2,162
3m ADV (Rs mn /US\$ mn)	3,828/74
Beta	0.9
Sensex/Nifty	16,038/4,831
Share outstanding (mn)	574

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(5.5)	(3.4)	(23.4)	(6.5)
Rel. to Sensex	(6.5)	2.1	(6.7)	(9.9)

Performance


Source: Capitaline, Karvy Institutional Research

Earnings Revision

(%)	FY12E	FY13E
Sales	↑ 2.0	↑ 1.0
EBITDA	↑ 4.0	↑ 3.4
PAT	↑ 3.6	↑ 3.7

Source: Company, Karvy Institutional Research

Exhibit 1: Key Financials

Y/E Mar (Rs. mn)	FY10	FY11	FY12E	FY13E	FY14E
Operating Income	227,420	275,010	340,372	388,028	446,430
EBITDA	78,610	89,680	108,555	121,621	138,260
Adjusted PAT/Net	62,090	68,350	83,263	95,662	108,376
EPS	108.2	119.0	145.0	166.6	188.6
ROCE	38.2	38.0	40.2	37.0	34.7
ROE	30.1	27.9	28.7	27.0	25.4
P/E	23.9	21.7	17.8	15.5	13.7

Source: Company, Karvy Institutional Research

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Results Review

Infosys registered an in-line Q3FY12 quarter, revenue in USD terms increased 3.4% QoQ to US\$1,806 mn (vs guidance of 3.4-5.4%). Margin has increased 265 bps QoQ, mainly due to 11% depreciation in INR. The Company guided for a flat revenue growth for Q4FY12, which was disappointing, while lowering FY12 USD revenue guidance to 16.4% (vs our expectation of 17-17.5%).

Revenue Analysis

Infosys' Q3FY12 revenue stood at Rs. 92.9 bn, which is 1% higher than our estimate. The average INR-USD conversion rate for the quarter was 51.4. In USD terms, its revenue rose 3.4% QoQ to US\$1,806 mn in Q3FY12.

- Revenue growth of 3.4% QoQ included a volume growth of 3% (1.4% onsite volume growth QoQ and 3.6% offshore volume growth) and a blended pricing increase of 1% in constant currency terms (Pricing was up 2.3% QoQ in constant currency for onsite and up 0.3% QoQ for offshore projects).
- Infosys added 3,266 employees (net) to take the total employee base to 145,088. Laterals added this quarter stood at 3,863.
- The proportion of fixed price contracts was at 40.9% in Q3FY12, as against 37.7% in Q2FY12.
- EBITDA margin increases 265 bps on account of INR depreciation.

Non-operating Items

- **Other income:** Other income was higher our estimate. Forex loss for the quarter stood at Rs. 200 mn.
- **Effective Tax Rate:** The tax rate was 28.6%, which was in line with our estimate.
- **Dilution:** ESOP conversion was in line with our estimate.

Net Profit Growth

Net profit was in-line compared with our expectation, primarily helped by higher-than-expected operating margin.

Guidance Disappoints

Infosys guided to a flat revenue growth for Q4FY12, which was disappointing, lowering FY12 USD revenue guidance to 16.4% (vs our expectation of 17-17.5%). However, the EPS guidance was revised up to Rs. 147 (from Rs. 143-145 earlier). Infosys is guiding to USD revenue growth of 0%-0.2% for Q4FY12, which again was below our expectation. The Company has guided to CY12 budget being flattish to slightly negative. Its Management indicated that despite having budgets, the clients are deferring the spending budgets due to macro-economic uncertainty.

Exhibit 2: Quarterly Details

		3Q11	4Q11	1Q12	2Q12	3Q12
Revenues	Rs mn	71,060	72,500	74,850	80,990	92,980
Growth (YoY)	%	23.8	22.0	20.8	16.6	30.8
Growth (QoQ)	%	2.3	2.0	3.2	8.2	14.8
- Operating costs	Rs mn	47,430	49,260	53,100	55,830	61,630
EBITDA	Rs mn	23,630	23,240	21,750	25,160	31,350
EBITDA margin	%	33.3	32.1	29.1	31.1	33.7
Growth (YoY)	%	15.9	14.9	10.9	8.7	32.7
Growth (QoQ)	%	2.1	(1.7)	(6.4)	15.7	24.6
- Interest expense	Rs mn	-	-	-	-	-
- Depreciation	Rs mn	2,160	2,220	2,230	2,350	2,360
+ Other income, net (incl forex)	Rs mn	2,900	4,150	4,430	3,870	4,220
PBT	Rs mn	24,370	25,170	23,950	26,680	33,210
- Taxes	Rs mn	6,570	6,990	6,730	7,620	9,490
Effective tax rate	%	27.0	27.8	28.1	28.6	28.6
PAT	Rs mn	17,800	18,180	17,220	19,060	23,720
- Minority interests	Rs mn	-	-	-	-	-
Consolidated PAT	Rs mn	17,800	18,180	17,220	19,060	23,720
Net margin	%	25.0	25.1	23.0	23.5	25.5
Growth (YoY)	%	12.4	16.6	15.7	9.7	33.3
Growth (QoQ)	%	2.5	2.1	(5.3)	10.7	24.4
Reported profits	Rs mn	17,800	18,180	17,220	19,060	23,720

Source: Company

Exhibit 3: Change in Estimates

(Rs mn)	FY12E			FY13E			FY14E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue (US\$ mn)	7,171	7,055	(1.6)	8,458	7,960	(5.9)	9,872	9,301	(5.8)
Revenue	333,661	340,372	2.0	384,302	388,028	1.0	444,223	446,430	0.5
EBITDA margin	31.3	31.9	60bps	30.6	31.3	70bps	30.4	31.0	60bps
EPS	139.9	145.0	3.6	160.6	166.6	3.7	182.5	188.6	3.3

Source: Company, Karvy Institutional Research

Exhibit 4: Profit & Loss statement (Consolidated)

		FY10	FY11	FY12E	FY13E	FY14E
Revenues	Rs mn	227,420	275,010	340,372	388,028	446,430
Growth	%	4.8	20.9	23.8	14.0	15.1
Avg. currency rate	Rs/\$	47.4	45.5	48.1	48.8	48.0
Depreciation	%	1.9	(4.0)	5.7	1.3	(1.5)
Employees	Nos	113,796	130,820	150,941	168,136	193,356
Growth	%	8.5	15.0	15.4	11.4	15.0
Software engineers	Nos	97,984	116,208	128,300	148,800	174,987
% of total employees	%	86.1	88.8	85.0	88.5	90.5
Revenue/ S/W employee	US\$ 000	51.4	56.4	57.9	57.4	57.4
Growth	%	(6.2)	9.8	2.6	(0.7)	-
Expenses	Rs mn	148,810	185,330	231,817	266,407	308,170
As % of revenue	%	65.4	67.4	68.1	68.7	69.0
Employee cost	Rs mn	119,360	148,640	183,508	210,856	244,619
As % of revenue	%	52.5	54.0	53.9	54.3	54.8
Cost / Employee	Rs 000	1,091.8	1,215.3	1,302.6	1,321.7	1,353.4
Wage inflation	%	(5.0)	11.3	7.2	1.5	2.4
Other costs	Rs mn	29,450	36,690	48,310	55,551	63,551
As % of revenue	%	12.9	13.3	14.2	14.3	14.2
EBITDA	Rs mn	78,610	89,680	108,555	121,621	138,260
EBITDA margin	%	34.6	32.6	31.9	31.3	31.0
Interest	Rs mn	-	-	-	-	-
Depreciation	Rs mn	9,050	8,540	9,335	10,548	11,423
Other income	Rs mn	9,340	12,110	17,192	19,971	21,623
PBT	Rs mn	78,900	93,250	116,411	131,044	148,460
Tax	Rs mn	16,810	24,900	33,147	35,382	40,084
Effective tax rate	%	21.3	26.7	28.5	27.0	27.0
PAT	Rs mn	62,090	68,350	83,263	95,662	108,376

Source: Company, Karvy Institutional Research

Exhibit 5: Balance sheet (Consolidated)

		FY10	FY11	FY12E	FY13E	FY14E
Equity	Rs mn	2,860	2,860	2,860	2,860	2,860
Reserves	Rs mn	227,630	256,900	316,649	385,433	463,555
Shareholders' funds	Rs mn	230,490	259,760	319,509	388,293	466,415
Debt	Rs mn	-	-	-	-	-
Minority	Rs mn	-	-	-	-	-
Capital employed	Rs mn	230,490	259,760	319,509	388,293	466,415
Fixed assets	Rs mn	53,550	57,600	51,430	53,382	54,459
Investments	Rs mn	37,120	1,440	12,330	12,330	12,330
Deferred tax assets	Rs mn	2,000	3,210	3,540	3,540	3,540
Cash	Rs mn	105,560	150,950	193,669	251,508	316,585
Working capital	Rs mn	32,260	46,560	58,541	67,534	79,501
Capital employed	Rs mn	230,490	259,760	319,509	388,293	466,415

Source: Company, Karvy Institutional Research

Exhibit 6: Cash flow statement (Consolidated)

		FY10	FY11	FY12E	FY13E	FY14E
PAT	Rs mn	62,090	68,350	83,263	95,662	108,376
+ non-cash expense	Rs mn	8,310	7,330	9,005	10,548	11,423
Cash profit	Rs mn	70,400	75,680	92,269	106,210	119,799
- Increase/(decrease) in WC	Rs mn	1,470	14,300	11,981	8,994	11,967
Operating cash flow	Rs mn	68,930	61,380	80,288	97,217	107,832
- Capex	Rs mn	9,060	12,590	3,165	12,500	12,500
Free cash flow	Rs mn	59,870	48,790	77,123	84,717	95,332
+ Equity raised	Rs mn	2,030	890	(0)	0	(0)
+ Debt raised	Rs mn	-	-	-	-	-
- Investments	Rs mn	37,120	(35,680)	10,890	-	-
- Dividend paid	Rs mn	16,740	39,970	23,515	26,878	30,254
- Misc. expense	Rs mn	(570)	-	-	-	-
Net change in cash	Rs mn	8,610	45,390	42,719	57,839	65,078
Opening cash	Rs mn	96,950	105,560	150,950	193,669	251,508
Closing cash	Rs mn	105,560	150,950	193,669	251,508	316,585

Source: Company, Karvy Institutional Research

Exhibit 7: RoCE/RoE analysis

		FY10	FY11	FY12E	FY13E	FY14E
EBIT/Sales	%	34.7	33.9	34.2	33.8	33.3
Sales/Avg CE	x	1.1	1.1	1.2	1.1	1.0
EBIT/ Avg. CE (RoCE)	%	38.2	38.0	40.2	37.0	34.7
Avg. CE/Avg. Equity	x	1.0	1.0	1.0	1.0	1.0
PBT/EBIT	x	1.0	1.0	1.0	1.0	1.0
PAT/PBT	x	0.8	0.7	0.7	0.7	0.7
Cons.PAT/PAT	x	1.0	1.0	1.0	1.0	1.0
PAT/Avg. Equity (RoE)	%	30.1	27.9	28.7	27.0	25.4

Source: Company, Karvy Institutional Research

Exhibit 8: Key ratios

		FY10	FY11	FY12E	FY13E	FY14E
Diluted shares	Nos mn	574	574	574	574	575
FDEPS	Rs	108.2	119.0	145.0	166.6	188.6
CEPS	Rs	124.0	133.9	161.3	184.9	208.5
BV	Rs	401.7	452.4	556.4	676.1	811.7
P/E	x	23.9	21.7	17.8	15.5	13.7
P/C	x	20.9	19.3	16.0	14.0	12.4
P/B	x	6.4	5.7	4.7	3.8	3.2
EV/Sales	x	6.0	4.8	3.8	3.2	2.6
EV/EBITDA	x	17.5	14.8	11.9	10.1	8.4
Net gearing	%	(62.4)	(59.4)	(65.2)	(68.6)	(71.1)
Working capital turnover	Days	51.8	61.8	62.8	63.5	65.0
Dividend yield	%	1.0	2.3	1.3	1.5	1.7

Source: Company, Karvy Institutional Research

Stock Ratings	Absolute Returns
Buy	> 15%
Hold	5-15%
Sell	< 5%

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Disclosures Appendix

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