

Infosys Technologies Limited

CMP Rs. 1726.0
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Result Update
Q1FY10

For the quarter ended Jun 09, Infosys reported its results well within the guidance provided, although the company has revised its guidance for FY10 to a slightly muted figure.

Result Highlights:

For Q1FY10:

- Revenues for the first quarter of FY10 grew by 12.7% YoY to Rs. 54,720 Mn, but showed a sequential decline of 2.9%
- PAT was Rs. 15,270 Mn for the quarter posting a YoY growth of 17.3%

Constant currency revenues are down by 1% for the quarter whereas Volumes have declined by 1.1%. Operating margins showed a 60 bps rise. The company has added 27 new clients on the backdrop of losing almost 20% revenues from its top client this quarter. The company was expecting a volume decline of 4-6% which proved to be in fact just 1% decline in volumes for the current quarter.

Infosys expects a gross addition of at least 18,000 new employees (2000 lateral + 16000 Freshers) for FY10, whereas the gross addition for the quarter was 3,538 employees. As of Q1FY10 the total number of employees stands at 1,03,905 showing a decline of 945 for the quarter. The attrition for the quarter was 11% out of which 2% was involuntary as part of the regular employee appraisal scheme.

From the service offerings point of view Infosys has seen a 150 basis points increment in Maintenance revenues this quarter owing to the fact that discretionary spends have been reduced by the clients & therefore non-discretionary spends have ramped up. The sequential growth on other segments remains flattish.

The effective tax rate for the quarter was higher, at 20% as compared 15.7% for the previous quarter. It remains uncertain as to how the tax rate will be applicable from FY10 since only the facilities within the SEZ will enjoy tax benefits. The management expects a 24-25% tax rate going ahead for FY10. But as the management says, that it depends totally on the business mix since only incremental business goes into the SEZ.

The company has around ~ Rs. 120 Bn in cash & investment yielding an average of 5%. The previous year, the company enjoyed yield of about 9% on their investments.

The management showed concern regarding the pace at which new business arrives, which makes it difficult to have clarity on the inflows. The sales pipeline looks robust yet, there has been a slowdown in the speed of decision making by the clients to engage into new projects. Deal sizes have also seen reduction but a trend cannot be established yet. Infosys has experienced ~10-15% cut in the spending from their existing clients. The company was expecting a pricing decline of about 6% for FY10, but this estimate has now been revised to 5% judging by new deals coming in & which are under negotiation.

The company is also focusing on introducing new IP's including some platform based services, SaaS solutions & so on which will show their transformational impact over the next 3 – 4 years.

Guidance:

Quarter ending September 2009:

- Revenues in the range of Rs. 53,180 Mn and Rs. 54,130 Mn.
- EPS is expected to be in the range of Rs. 23.67 and Rs. 24.09

For FY10:

- Revenues in the range of Rs. 214,160 Mn and Rs. 217,470 Mn.
- EPS between Rs. 94.59 and 96

The company expected that the operating margins for FY10 would drop by 300 basis points, however they now expect them to drop by only 150 basis points. Investment on employee addition & increasing the salesforce which should have begun in Q1, has been deferred to the next quarter & will be spread across the forthcoming 3 quarters. This provides a cushion to the margins.

At the current price of Rs. 1726, Infosys trades at 17 times FY10E earnings leading to very less margin of safety for investors. It would take a while for the turnaround as spending on IT eases over the years. Meanwhile, we recommend to Accumulate below 14 times FY10E earnings.

Infosys: Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q1FY10	Q4FY09	Q-Q(%)	Q1FY09	Y-Y(%)	FY09	FY08	Y-Y(%)
Net Revenues	5,472.0	5,635.0	-2.89%	4,854.0	12.73%	21,693.0	16,692.0	29.96%
Direct Expenses	2,915.0	3,045.0	-4.27%	2,754.0	5.85%	11,765.0	9,207.0	27.78%
Gross Profit	2,557.0	2,590.0	-1.27%	2,100.0	21.76%	9,928.0	7,485.0	32.64%
Selling & Marketing expenses	261.0	270.0	-3.33%	257.0	1.56%	1,104.0	916.0	20.52%
General & Admin Expenses	428.0	429.0	-0.23%	364.0	17.58%	1,629.0	1,331.0	22.39%
Total Expenditure	3,604.0	3,744.0	-3.74%	3,375.0	6.79%	14,498.0	11,454.0	26.58%
Operating Profit	1,868.0	1,891.0	-1.22%	1,479.0	26.30%	7,195.0	5,238.0	37.36%
OPM (%)	34.14%	33.56%	1.73%	30.47%	12.04%	33.17%	31.38%	5.69%
Other Income	269.0	252.0	6.75%	117.0	129.91%	473.0	704.0	-32.81%
EBITDA	2,137.0	2,143.0	-0.28%	1,596.0	33.90%	7,668.0	5,942.0	29.05%
Depreciation	222.0	228.0	-2.63%	169.0	31.36%	761.0	598.0	27.26%
EBIT	1,915.0	1,915.0	0.00%	1,427.0	34.20%	6,907.0	5,344.0	29.25%
Interest	0.0	0.0		0.0		0.0	0.0	
PBT	1,915.0	1,915.0	0.00%	1,427.0	34.20%	6,907.0	5,344.0	29.25%
Tax	388.0	302.0	28.48%	125.0	210.40%	1,027.0	806.0	27.42%
PAT Before MI	1,527.0	1,613.0	-5.33%	1,302.0	17.28%	5,880.0	4,538.0	29.57%
Minority Interest	0.0	0.0		0.0		0.0	0.0	#DIV/0!
PAT	1,527.0	1,613.0	-5.33%	1,302.0	17.28%	5,880.0	4,538.0	29.57%
EPS	26.6	28.1	-5.44%	22.7	17.18%	104.4	79.3	31.63%
Ratio Analysis								
YE March (Rs. Mn.)	Q1FY10	Q4FY09	Q-Q(bps)	Q1FY09	Y-Y(bps)	FY09	FY08	Q-Q(bps)
OPM (%)	34.14%	33.56%	57.9	30.47%	366.8	33.17%	31.38%	178.7
EBITDA (%)	39.05%	38.03%	102.3	32.88%	617.3	35.35%	35.60%	(25.0)
PBIT (%)	35.00%	33.98%	101.2	29.40%	559.8	31.84%	32.02%	(17.6)
PAT (%)	27.91%	28.62%	(71.9)	26.82%	108.2	27.11%	27.19%	(8.1)
Tax Rate (%)	20.26%	15.77%	449.1	8.76%	1,150.1	14.87%	15.08%	(21.3)

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Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
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Infosys Technologies

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