9th October 2009

Infosys Technologies Limited	CMP Rs. 2178.0 HOLD	Result Update **Q2FY10**

Infosys reported a slightly subdued second quarter well within the guidance provided. They remain to be cautiously optimistic about their performance going ahead.

Result Highlights:

For Q2FY10:
- Revenues for the second quarter of FY10 grew by ~3% YoY to Rs. 55,800 Mn, but showed a sequential growth of 2%
- PAT was Rs. 15,400 Mn for the quarter posting a YoY growth of ~7%

Guidance:

Quarter ending December 2009:
- Revenues in the range of Rs. 54,290 Mn and Rs. 54,760 Mn.
- EPS is expected to be in the range of Rs. 23.35 and Rs. 23.56

For FY10:
- Revenues in the range of Rs. 219,610 Mn and Rs. 220,550 Mn.
- EPS between Rs. 99.00 and 100.00

An admirable thing about Infosys is their ability to sustain margins well within their average range even in times of downturn. Infosys sees a repeat business of almost 99% every year which leaves plenty of room for growth. Also the pricing scenario has shown a slight improvement, probably momentarily, but which can lead to further margin growth. The currency movement earlier also gave some cushion to the margin & at the same time, freeze on employee addition.

From the management concall, it was apparent that pricing pressure has reduced from clients & deals in the pipeline have started to move. The company has shown a volume increase of ~2% & has also seen a lot of deals coming in on account of client/vendor consolidation.

The company had reported an estimated addition of 18,000 employees by the end of the FY10 (in Q1FY10), which they have increased by 2000, to 20,000 employees. Most of their recruits would be on the lateral side which, according to the management, will keep them ready for the growth in the business that they are expecting. Infosys wants to strengthen their middle management layer which apparently will facilitate more efficient project execution improving their cycle time per project.

One significant opportunity still remains for Infosys, as before, with the $2.8 bn in cash, they are looking for acquisition targets on the basis of three criteria:

1) **Geographical** - Smaller acquisition which would strengthen their footprint in German/French/Japanese (Non-English) markets
2) **Service Offering** - Some platform based acquisition which will strengthen their business solutions.
3) **Vertical** - They want to ensure a faster entry into their desired verticals

Although, it would be too harsh to say that Infosys might have missed the bus on some very attractive valuations for their target companies, but nevertheless, if the acquisition is a strategic fit, growth can be extracted out of it.

Due to the consolidation seen in the computer hardware industry & their march into the services territory, has changed the game slightly for now. These acquisitions make it possible to show truly end-to-end performance from hardware to services. In the wake of cash rich global giants infringing into the services domain, where does Infosys stand a couple of years from now, is yet to be seen.

Also the company has some pricing risk owing to uncertainty of the client budget scenario & margin risk due to rupee appreciation in the near term. The management mentioned a positive indicator, post downturn, in their concall; that most of the clients who were taking too much time making up their mind for opting for outsourcing, have started to relax. Although decision cycles haven't seen any change in their duration but decisions are being taken regarding new projects.

Since there had been a quarter to quarter budget update as well as clients engaging into more & more short term contracts, volume growth was difficult to keep track of. But at the brink of the upturn, things might look better, although contracts & budgets have been kept short term for now.

It's always difficult to project currency movement, which alters the outlook widely. Judging by their performance till now, on a constant currency basis it can be expected that INFY might meet their FY10 estimates, with relative ease. Addition of new employees coupled with wage hikes will see a slight increase in offshore cost, yet renewed sales effort can bring in better topline performance.

Infosys trades at a P/E of 21, which brings the argument to margin of safety. Infosys is an exceptionally well run company & fairly priced as an industry leader. But in the wake of this, if one considers pruning their IT portfolio, we recommend a HOLD for Infosys.

Infosys: Quarterly Financials

Earnings Statement

YE March (Rs. Mn.)	Q2FY10	Q1FY10	Q-Q(%)	Q2FY09	Y-Y(%)	FY09	FY08	Y-Y(%)
Net Revenues	5,585.0	5,472.0	2.07%	5,418.0	3.08%	21,693.0	16,692.0	29.96%
Direct Expenses	2,963.0	2,915.0	1.65%	2,891.0	2.49%	11,765.0	9,207.0	27.78%
Gross Profit	2,622.0	2,557.0	2.54%	2,527.0	3.76%	9,928.0	7,485.0	32.64%
Selling & Marketing expenses	276.0	261.0	5.75%	303.0	-8.91%	1,104.0	916.0	20.52%
General & Admin Expenses	413.0	428.0	-3.50%	430.0	-3.95%	1,629.0	1,331.0	22.39%
Total Expenditure	3,652.0	3,604.0	1.33%	3,624.0	0.77%	14,498.0	11,454.0	26.58%
Operating Profit	1,933.0	1,868.0	3.48%	1,794.0	7.75%	7,195.0	5,238.0	37.36%
OPM (%)	34.61%	34.14%	1.39%	33.11%	4.53%	33.17%	31.38%	5.69%
Other Income	236.0	269.0	-12.27%	66.0	257.58%	473.0	704.0	-32.81%
EBITDA	2,169.0	2,137.0	1.50%	1,860.0	16.61%	7,668.0	5,942.0	29.05%
Depreciation	232.0	222.0	4.50%	177.0	31.07%	761.0	598.0	27.26%
EBIT	1,937.0	1,915.0	1.15%	1,683.0	15.09%	6,907.0	5,344.0	29.25%
Interest	0.0	0.0		0.0		0.0	0.0	
PBT	1,937.0	1,915.0	1.15%	1,683.0	15.09%	6,907.0	5,344.0	29.25%
Tax	397.0	388.0	2.32%	251.0	58.17%	1,027.0	806.0	27.42%
PAT Before MI	1,540.0	1,527.0	0.85%	1,432.0	7.54%	5,880.0	4,538.0	29.57%
Minority Interest	0.0	0.0		0.0		0.0	0.0	#DIV/0!
PAT	1,540.0	1,527.0	0.85%	1,432.0	7.54%	5,880.0	4,538.0	29.57%
EPS	26.8	26.6	0.75%	25.0	7.20%	104.4	79.3	31.63%

Ratio Analysis

YE March (Rs. Mn.)	Q2FY10	Q1FY10	Q-Q(bps)	Q2FY09	Y-Y(bps)	FY09	FY08	Q-Q(bps)
OPM (%)	34.61%	34.14%	47.3	33.11%	102.6	33.17%	31.38%	178.7
EBITDA (%)	38.84%	39.05%	(21.7)	34.33%	472.3	35.35%	35.60%	(25.0)
PBIT (%)	34.68%	35.00%	(31.4)	31.06%	393.3	31.84%	32.02%	(17.6)
PAT (%)	27.57%	27.91%	(33.2)	26.43%	147.5	27.11%	27.19%	(8.1)
Tax Rate (%)	20.50%	20.26%	23.5	14.91%	534.7	14.87%	15.08%	(21.3)

Infosys: Financials

Earnings Statement

YE March (Rs. Mn.)	FY07	FY08E	FY09	FY10E
Net Sales	13,893.0	16,692.0	21,693.0	22,557.3
Software Dvlp. Expenses	7,458.0	9,207.0	11,765.0	12,524.7
Gross Profit	6,435.0	7,485.0	9,928.0	10,032.6
Total Expenditure	9,502.0	11,454.0	14,498.0	15,481.4
Operating Profit	4,391.0	5,238.0	7,195.0	7,075.9
Other Income	370.0	704.0	473.0	678.7
EBITDA	4,761.0	5,942.0	7,668.0	7,754.6
Depreciation	514.0	598.0	761.0	890.2
EBIT	4,247.0	5,344.0	6,907.0	6,864.3
Interest	-	-	-	-
PBT	4,247.0	5,344.0	6,907.0	6,864.3
Tax	386.0	806.0	1,027.0	1,132.6
PAT	3,856.0	4,659.0	5,988.0	5,731.7

Ratio Analysis

YE March	FY07	FY08E	FY09	FY10E
OPM (%)	31.6%	31.4%	33.2%	31.4%
EBITDA (%)	34.3%	35.6%	35.3%	34.4%
PBIT (%)	30.6%	32.0%	31.8%	30.4%
PAT (%)	27.7%	27.2%	27.1%	25.4%
EPS (Rs.)	67.3	79.3	102.8	100.2
P/E (x)	20.4	17.3	13.3	13.7
P/BV (x)	7.0	5.7	4.3	3.5
BVPS (Rs.)	196.8	241.2	319.1	390.1
Market Cap (Rs. Mn.)	78,409.8	78,409.8	78,409.8	78,409.8
M Cap/Sales (x)	5.6	4.7	3.6	3.5
EV (Rs. Mn.)	78,409.8	78,409.8	78,409.8	78,409.8
EV/EBITDA (x)	17.9	15.0	10.9	11.1
EV/Sales (x)	5.6	4.7	3.6	3.5
ROCE (%)	37.7%	38.7%	37.8%	30.8%
RONW (%)	34.2%	32.9%	32.2%	25.7%
Debtors T/o Days	64.0	72.1	61.8	75.0
Advances T/o Days	31.9	60.6	55.2	60.0
Creditors T/o Days	38.6	41.8	33.7	37.0
Working Cap T/o Days	193.7	193.0	214.9	264.9
Fixed Assets T/o (Gross)	3.0	3.1	3.1	2.8
DPS (Rs.)	11.4	33.3	27.3	25.0
Dividend Payout (%)	17.0%	41.9%	26.5%	24.9%
Dividend Yield (%)	0.8%	2.4%	2.0%	1.8%

Balance Sheet

YE March (Rs. Mn.)	FY07	FY08E	FY09	FY10E
Equity Capital	286.0	286.0	286.0	286.0
Reserves	10,969.0	13,509.0	17,968.0	22,029.0
Shareholders Funds	11,255.0	13,795.0	18,254.0	22,315.0
Pref Shares by Subsidiary	-	-	-	-
Minority Interest	4.0	-	-	-
Total Liabilities	**11,259.0**	**13,795.0**	**18,254.0**	**22,315.0**
Fixed Assets	3,771.0	4,777.0	5,354.0	5,786.8
Investments	25.0	72.0	-	-
Current Assets				
Sundry Debtors	2,436.0	3,297.0	3,672.0	4,635.1
Loans & Advances	1,214.0	2,771.0	3,279.0	3,708.0
Cash & Bank Balance	5,871.0	6,950.0	9,695.0	13,118.2
Current Liabilities				
Sundry Creditors	1,469.0	1,912.0	2,004.0	2,286.6
Provisions	681.0	2,279.0	1,868.0	2,803.3
Net Current Assets	7,371.0	8,827.0	12,774.0	16,371.4
Deferred Tax Assets	92.0	119.0	126.0	156.9
Total Assets	**11,259.0**	**13,795.0**	**18,254.0**	**22,315.0**

Cash Flow

YE March (Rs. Mn.)	FY07	FY08	FY09	FY10E
Opening Cash & Bank	3,429.0	5,871.0	6,950.0	10,005.0
Profit After Tax	3,856.0	4,659.0	5,988.0	5,731.7
Less : Invt Income	(370.0)	(704.0)	(473.0)	(678.7)
Depreciation	514.0	598.0	761.0	890.2
Deferred Taxation	(27.0)	(22.0)	(28.0)	(30.9)
Others	(6.0)	(453.0)	0.0	0.0
Change in Working Cap	(941.0)	(377.0)	(1,202.0)	(174.2)
CF - Operating Activities	3,026.0	3,701.0	5,046.0	5,738.2
Change in Fixed Assets	(2,053.0)	(1,156.0)	(1,007.0)	(1,323.0)
Change in Investments	730.0	(47.0)	72.0	0.0
Investment Income	370.0	704.0	473.0	678.7
CF - Investing Activities	(953.0)	(499.0)	(462.0)	(644.4)
Increase in Equity	1,189.0	106.0	45.0	0.0
Changes in Borrowings	0.0	0.0	0.0	0.0
Dividend Paid	(756.0)	(2,225.0)	(1,574.0)	(1,670.7)
CF - Financing Activities	369.0	(2,123.0)	(1,529.0)	(1,670.7)
Net Change in Cash	2,442.0	1,079.0	3,055.0	3,423.2
Closing Cash & Bank Bal	5,871.0	6,950.0	10,005.0	13,428.1

Disclaimer

Disclosure of Interest Statement	Infosys Technoligies
1. Analyst Ownership of the scrip	NO
2. PPFAS ownership of the scrip	NO
3. PMS ownership of the scrip	NO

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