

## RESULTS

## REVIEW

## Infosys Ltd.

Back to under-promise and over-deliver

HOLD

Analyst

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Nifty: 5,951; Sensex: 19,664

CMP	Rs2,713
Target Price	Rs2,630
Potential Upside/Downside	(3)%

## Key Stock Data

Sector	IT Services
Bloomberg / Reuters	INFO IN / INFY.BO
Shares o/s (mn)	574
Market cap. (Rs mn)	1,557,673
Market cap. (US\$ mn)	28,445
3-m daily average vol.	116,674

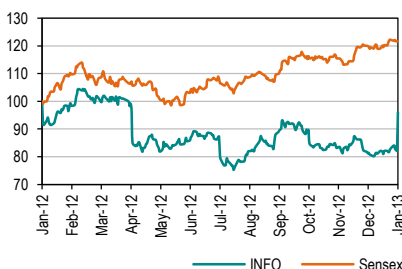
## Price Performance

52-week high/low	Rs2,990/2,102
	-1m -3m -12m
Absolute (%)	18 7 (4)
Rel to Sensex (%)	17 3 (26)

## Shareholding Pattern (%)

Promoters	16.0
FII/IRIs/OCBs/GDR	51.6
MFs/Banks/FIs	18.7
Non Promoter Corporate	0.6
Public & Others	13.1

## Relative to Sensex



Source: Capitaline

## Summary

- 8% beat on net profit supported by 2% beat on revenue and EBITDA.
- FY13 US\$ revenue guidance of 6.5% (organic guidance unchanged at 5% YoY) while EPS est. revised upwards to Rs162.8 due to Q3 beat & reset in US\$/Rs assumption (54.5 v/s 53).
- Revised US\$ rev growth by 1.5%/6.2% to 6.5%/12.6% and EPS by 3.3%/5.8% to Rs163/Rs175 for FY13E/FY14E.
- Upgrade to HOLD with a revised TP of Rs2,630 (15x FY14 EPS, 15% discount to TCS's target multiple of 17x).

## Result Highlights

■ **Strong Q3 – 8% beat on net profit supported by 2% beat on revenue and EBITDA**

Q3FY13 was a strong quarter, vindicated by 8% beat on net profit supported by 2% beat on revenue and EBITDA coupled with lower tax outgo. Revenue of US\$1,911 mn (up 6.3% QoQ) came ahead of IDBlest of US\$1,864 mn due to better organic growth (4.2% QoQ v/s IDBlest of 1.5%). EBITDA margin at 28.5% was down only 60bps QoQ, despite 6% offshore wage hike and unfavorable currency movement, offset by 3.2% increase in realization in CC along with efficiency improvement.

■ **Trade-off between volume, pricing; former needs to pick up as latter may not be sustainable**

Infy's Q3 result was impressive thanks to 3.2% CC improvement in realization which offset sluggish volume growth (2% v/s 3.8% in Q2). We would like to attach more weight to volume led growth for sustainable revenue trajectory as achieving pricing growth in current environment will be uphill task.

■ **FY13 US\$ revenue guidance of 6.5%; EPS est. revised upwards to Rs162.8**

Infosys expects FY13 revenue to be US\$7,450 mn implying growth of 6.5% YoY which includes US\$104 mn contribution from Lodestone. In order to achieve FY13 guidance, Infy will require 4.1% growth in Q4 (organic growth of 2.8%). Infy has revised EPS to Rs162.8 from earlier Rs160.6 accounting for Q3 beat and rebasing rupee assumption to Rs54.5 from Rs53 in Q2 (2.8% change).

■ **Improvement in operating metrics**

- 1) Europe grew 14.4% thanks to Lodestone while North America reported tepid growth of 1.6% in CC.
- 2) **All verticals are in green:** Financial service (6%), Mfg (4%), RCL (6.2%), ECS (7.1%) grew in CC.
- 3) **Impressive client addition:** 89 client adds (53 organic) takes total active clients to 776.
- 4) Gross and net hiring of ~8.4k and 1.9k employees in Q3. Qtrly annualized attrition dropped to 17% from 20% in Q2 and utilization of 73.2% (ex-trainees) is still below target of 78-80%.
- 5) Infosys has closed 8 large deals (TCV on US\$731 mn) in Q3.

■ **Outlook and Valuation: Upgrade to HOLD**

As per the management, initial read on CY13 IT budgets (expected to close by Feb) are likely to be flat to marginally down. However, better Q3 and timely ramp up in deals won in past few quarters has led US\$ revenue growth to 6.5%/12.6% for FY13/FY14 (requires ask rate of around 2% in 4 qtrs of FY14). Further, EPS est. is revised upwards by 3.3%/5.8% to Rs163/Rs175 for FY13/FY14 incorporating US\$8 mn per quarter charge due to Lodestone and currency reset to Rs54.5 (v/s Rs53 in Q2). We value Infosys at 15x FY14 EPS (15% discount to TCS's target multiple of 17x) with a revised TP of Rs2,630 (Rs2,200 earlier) hence we upgrade our rating to **HOLD** from **REDUCE** earlier. The valuation gap with TCS has narrowed significantly to 9% post 16%+ rise in stock price. However, further compression in valuation gap will require sustainable performance from Infy.

Table: Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY11	275,010	89,640	32.6	68,230	119.4	22.7	15.4	27.8	33.1
FY12	337,340	107,160	31.8	83,160	145.5	18.6	12.5	29.0	34.1
FY13E	405,533	116,677	28.8	92,859	162.6	16.7	11.0	26.4	30.0
FY14E	444,779	125,076	28.1	100,039	175.1	15.5	9.7	23.2	26.2

Source: Company; IDBI Capital Research

Table: Quarterly snapshot

(Rs mn)

Year-end: March	Q3FY13	Q2FY13	QoQ	Q2FY12	YoY	FY12	FY13E	FY14E
<b>Total revenue</b>	<b>104,240</b>	<b>98,580</b>	<b>5.7</b>	<b>80,990</b>	<b>28.7</b>	<b>337,340</b>	<b>405,533</b>	<b>444,779</b>
Software dev expenses	62,730	58,270	7.7	45,090	39.1	188,710	241,887	269,092
Gross profit	41,510	40,310	3.0	35,900	15.6	148,630	163,646	175,688
Selling & marketing exp	5,410	5,060	6.9	4,560	18.6	17,570	20,567	22,613
General & admin exp	6,400	6,530	(2.0)	6,180	3.6	23,900	26,402	27,999
SG&A expense	11,810	11,590	1.9	10,740	10.0	41,470	46,969	50,611
<b>EBITDA</b>	<b>29,700</b>	<b>28,720</b>	<b>3.4</b>	<b>25,160</b>	<b>18.0</b>	<b>107,160</b>	<b>116,677</b>	<b>125,076</b>
Depreciation	2,930	2,750	6.5	2,350	24.7	9,370	11,193	12,009
EBIT	26,770	25,970	3.1	22,810	17.4	97,790	105,483	113,067
Other income	5,030	7,060	(28.8)	3,870	30.0	19,040	22,194	24,918
PBT	31,800	33,030	(3.7)	26,680	19.2	116,830	127,677	137,985
Tax	8,110	9,340	(13.2)	7,620	6.4	33,670	34,818	37,946
Adjusted net profit	23,690	23,690	0.0	19,060	24.3	83,160	92,859	100,039
<b>Reported net profit</b>	<b>23,690</b>	<b>23,690</b>	<b>0.0</b>	<b>19,060</b>	<b>24.3</b>	<b>83,160</b>	<b>92,859</b>	<b>100,039</b>
<b>Diluted EPS (Rs)</b>	<b>41.5</b>	<b>41.5</b>	<b>0.0</b>	<b>33.4</b>	<b>24.3</b>	<b>145.5</b>	<b>162.6</b>	<b>175.1</b>
<b>As % of net revenue</b>								
Gross profit	39.8	40.9		44.3		44.1	40.4	39.5
Selling & marketing exp	5.2	5.1		5.6		5.2	5.1	5.1
Admin exp	6.1	6.6		7.6		7.1	6.5	6.3
EBITDA	28.5	29.1		31.1		31.8	28.8	28.1
EBIT	25.7	26.3		28.2		29.0	26.0	25.4
Reported net profit	22.7	24.0		23.5		24.7	22.9	22.5
Tax rate	25.5	28.3		28.6		28.8	27.3	27.5

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
<b>Net sales</b>	<b>275,010</b>	<b>337,340</b>	<b>405,533</b>	<b>444,779</b>
Growth (%)	20.9	22.7	20.2	9.7
Operating expenses	(185,370)	(230,180)	(288,856)	(319,703)
<b>EBITDA</b>	<b>89,640</b>	<b>107,160</b>	<b>116,677</b>	<b>125,076</b>
Growth (%)	14.2	19.5	8.9	7.2
Depreciation	(8,620)	(9,370)	(11,193)	(12,009)
<b>EBIT</b>	<b>81,020</b>	<b>97,790</b>	<b>105,483</b>	<b>113,067</b>
Other income	12,110	19,040	22,194	24,918
<b>Pre-tax profit</b>	<b>93,130</b>	<b>116,830</b>	<b>127,677</b>	<b>137,985</b>
Tax	(24,900)	(33,670)	(34,818)	(37,946)
Effective tax rate (%)	26.7	28.8	27.3	27.5
<b>Net profit</b>	<b>68,230</b>	<b>83,160</b>	<b>92,859</b>	<b>100,039</b>
<b>Adjusted net profit</b>	<b>68,230</b>	<b>83,160</b>	<b>92,859</b>	<b>100,039</b>
Growth (%)	9.7	21.9	11.7	7.7
Shares o/s (mn nos)	571	571	571	571

### Balance Sheet

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Net fixed assets	54,990	61,450	69,757	77,247
Investments	1,440	3,720	4,836	6,287
Other non-curr assets	3,210	2,650	2,650	2,650
<b>Current assets</b>	<b>253,290</b>	<b>315,750</b>	<b>392,972</b>	<b>481,248</b>
Sundry Debtors	46,530	58,820	69,756	76,570
Cash and Bank	166,660	205,910	264,543	337,204
Loans and advances	40,100	51,020	58,673	67,474
<b>Total assets</b>	<b>312,930</b>	<b>383,570</b>	<b>470,215</b>	<b>567,432</b>
<b>Shareholders' funds</b>	<b>259,760</b>	<b>313,320</b>	<b>389,387</b>	<b>472,771</b>
Share capital	2,860	2,860	2,860	2,860
Reserves & surplus	256,900	310,460	386,527	469,911
<b>Curr Liab &amp; prov</b>	<b>79,570</b>	<b>108,450</b>	<b>125,903</b>	<b>147,851</b>
Current liabilities	53,170	70,250	80,827	94,661
Provisions	26,400	38,200	45,076	53,190
<b>Total liabilities</b>	<b>53,170</b>	<b>70,250</b>	<b>80,827</b>	<b>94,661</b>
<b>Total equity &amp; liabilities</b>	<b>312,930</b>	<b>383,570</b>	<b>470,215</b>	<b>567,432</b>
<b>Book Value (Rs)</b>	<b>455</b>	<b>548</b>	<b>682</b>	<b>828</b>

### Cash Flow Statement

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Pre-tax profit	93,130	116,830	127,677	137,985
Depreciation	3,730	3,730	11,193	12,009
Tax paid	(26,110)	(33,110)	(34,818)	(37,946)
Chg in working capital	(1,200)	(6,130)	(8,012)	(1,781)
Other operating activities	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>69,550</b>	<b>81,320</b>	<b>96,041</b>	<b>110,267</b>
Capital expenditure	(5,170)	(10,190)	(19,500)	(19,500)
Chg in investments	35,680	(2,280)	(1,116)	(1,451)
Other investing activities	3,470	11,000	18,364	24,918
<b>Cash flow from investing (b)</b>	<b>33,980</b>	<b>(1,470)</b>	<b>(2,252)</b>	<b>3,967</b>
Equity raised/(repaid)	350	70	(136)	0
Dividend (incl. tax)	(40,130)	(31,360)	(16,655)	(16,655)
Other financing activities	3,830	8,930	-	-
<b>Cash flow from financing (c)</b>	<b>(35,950)</b>	<b>(22,360)</b>	<b>(16,792)</b>	<b>(16,655)</b>
<b>Net chg in cash (a+b+c)</b>	<b>67,580</b>	<b>57,490</b>	<b>76,997</b>	<b>97,578</b>

### Financial Ratios

Year-end: March	FY11	FY12	FY13E	FY14E
Adj EPS (Rs)	119.4	145.5	162.6	175.1
Adj EPS growth (%)	9.6	21.9	11.7	7.7
EBITDA margin (%)	32.6	31.8	28.8	28.1
Pre-tax margin (%)	33.9	34.6	31.5	31.0
ROE (%)	27.8	29.0	26.4	23.2
ROCE (%)	33.1	34.1	30.0	26.2
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	0.9	1.0	0.9	0.9
Leverage factor (x)	1.2	1.2	1.2	1.2
Net margin (%)	24.8	24.7	22.9	22.5
<b>Working Capital &amp; Liquidity ratio</b>				
Receivable days	62	64	63	63
Payable days	53	51	45	47

### Valuation

Year-end: March	FY11	FY12	FY13E	FY14E
P/E (x)	22.7	18.6	16.7	15.5
Price / Book value (x)	6.0	4.9	4.0	3.3
PCE (x)	20.2	16.8	14.9	13.8
EV / Net sales (x)	5.0	4.0	3.2	2.7
EV / EBITDA (x)	15.4	12.5	11.0	9.7
Dividend Yield (%)	2.2	1.7	0.9	0.9



# Notes

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**Key to Ratings****Stocks:**

**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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