



Infosys Ltd Result Synopsis

BUY

CMP: Rs.2695

Target: Rs. 3200

Beats expectations, Raises FY12 EPS guidance, Volume growth disappoints, Management commentary remains conservative but sounds more confident....

Infosys reported better than expected Q2112 performance largely driven by beneficial currency movement as well as improved utilizations. Net sales grew 8.2%QoQ/16.6%YoY to Rs.8099cr compared to our estimates of Rs.8060cr, despite volume growth disappointing at 4.5%(est.5%).

The company had guided revenues for the quarter between 7699-7810cr (+2.86-4.34%QoQ) and hence managed to comfortably beat guidance as expected.

Net profits for Q2112 rose 11%QoQ/10%YoY to Rs.1906cr compared to estimated Rs.1895.7cr. Consequently EPS stood at Rs.33.96 compared to a guided range of Rs.29.64-30.15. Infosys witnessed a rise in tax rate to 28.6% compared to 26.6% on account of expiry of tax benefits.

Infosys witnessed healthy improvement in EBIT margins to 28.2% compared 26.1% seen in Q112 driven by stronger US dollar(+3.4QoQ%). The sharp improvement in margins are attributed to 1.4% currency impact, 0.40% improved utilizations. Utilizations (excl. trainees) rose to 77.3% vs.74.9% seen in Q112.

Dollar revenue growth however came in below expectations at 4.5% at \$1746mn and within the guided range of \$1730-1755mn. The company as expected lowered its FY12 dollar revenue growth forecast for FY12 to 17.1-19.1% from 18-20% given earlier on account of rupee depreciation. However management maintained their volume growth (+18%) and pricing assumptions (+2%) for the fiscal.

The company added 45clients during the quarter including the 1 big ticket client (+\$300mn+). Infosys won 2 transformational deals during the quarter. Infosys continues to maintain its pipeline, and is pursuing 12 large deals and 27 transformational deals.

The company net added 8262 employees during the quarter however percentage of lateral hires to gross added dropped to 15% vs. 40% seen in Q112. Attrition despite a QoQ drop in absolute terms, remain at elevated levels at 15.6% vs. 15.8% in Q112. Staff expense rose 21.3% YoY. Gross additions stood at 15,352 over the guided 12,000 for the quarter. The company maintained its hiring target of 45000 for FY 12 and expects to net added 8K over the Oct-Dec period.



Revenue Profile:

Revenue by service offering:

Business operations segment which account for 60.9% of revenues registered healthy growth of 6.1%QoQ driven by strong performance in the Application Development (11% QoQ vs.5% Q112)and Testing services(14.2%QoQ vs. 7.2%Q112). However Application maintenance services which account for 21% of overall revenues and 35% of segment (BO) revenues grew mere 1.2% QoQ compared to relatively robust 5.7% QoQ seen in Q112. The Business process management services grew 4.5% compared 0.6% QoQ seen in Q112.

Business Transformation segment which accounts for 31.2% of revenues, witnessed moderation in revenue growth at 2.8% QoQ vs. 4%QoQ seen in Q112. Consulting and Package Implementations recorded revenue growth of 2.4% compared to 3.5% seen in Q112. The company remains focused on the lucrative consulting business. System Integration (6% of total revenues) registered a 0.5%QoQ decline in revenues on account of the high 7.7% QoQ growth seen in June-11 Quarter.

The Business Innovation segment which consists of the Products, Platforms and Solutions, recorded a 0.5%QoQ fall in revenues on account of sharp 8.6% decline in revenues from products while product engineering services revenues surged 11%QoQ despite a 39%QoQ jump seen in Q112. The company launched the platform Infosys Edge™ and has added 10 clients during the quarter. Finacle™, the banking solution from Infosys added 17 clients (15-APAC and 2EMEA) in Q212.

Revenue by service offering:	% of sales	QoQ	YoY
Business Operations	60.9	6.10%	
<i>Application Development</i>	17.1	11.0%	27.9%
<i>App Maintainance</i>	21.6	1.2%	7.3%
<i>IMS</i>	5.8	2.7%	9.2%
<i>Testing</i>	8.2	14.2%	25.9%
<i>Bus. Process Mgmt Services</i>	5.4	4.5%	12.5%
<i>Others*</i>	2.8	4.5%	16.7%
Business Transformation	31.2	2.8%	
<i>Consulting & Package Implementations</i>	24.7	2.4%	11.7%
<i>System Integration</i>	6	-0.5%	22.9%
<i>others*</i>	0.5	161.2%	191.8%
Business Innovation	7.9	-0.5%	
<i>Products</i>	4.2	-8.6%	16.7%
<i>Products Eng Services</i>	3.4	11.0%	58.7%
<i>Others*</i>	0.3	4.5%	16.7%

*Reported under "others" in previous quarters; Source: Company and Banham Research

Revenue by Industry

FSI reported 4.2% sequential growth and 4.8% in constant currency. The insurance, banking and financial services industry accounts for 35.3% of revenues. B&FS which accounts of 80% of industry, reported 4.9% QoQ growth in revenues compared to 2.8% QoQ seen in Q112. However revenues from the insurance sector grew mere 1.6% vs. 5.8% in Q112. Infosys remains confident on the sector as implementation of superior risk management practices remains a priority for the sector.

Manufacturing continued to report tractions with revenues growing 4% QoQ vs. 3.8% seen in Q112. The manufacturing sector revenue share has moved up from 18.9% last year to 20.2% in Q212 on account of improved demand as Manufacturers continue to focus on leaner operations, higher efficiency and improved productivity. Infosys added 10 clients from the manufacturing sector.

Retail & Lifesciences industry accounting for 22.9% of revenues, was the best performing industry, with revenues growing 5.4% sequentially and 6% in constant currency. The high industry growth was driven by Healthcare (+71%QoQ) on account of low base effect. Lifesciences revenues rose 7.3% QoQ compared to 4.3% QoQ growth seen in Q112. Retail & CPG grew 1.2% QoQ due to base effect (15.8%QoQ in Q112). Revenues from Transport and Logistics however continued to drag, declining 1.3% subsequent to a -10.6% fall in Q112. The management said it continues to witness robust traction in its investment areas such as Retail, Healthcare etc and has added 19-22 clients in the space.

Energy, utilities, Communications & Services industry which accounts for 21.6% of revenues, reported 4.5% sequential growth and 4.5% in constant currency terms. Revenues from Telecom sector showed improvement, growing 2.5% QoQ vs. 7.1% de-growth seen in Q112. Energy & Utilities revenues grew in line with overall revenues, at 4.5%QoQ.

Revenue by Industry	% of Sales Q212	Growth QoQ
Insurance, Banking & Financial Services	35.3	4.2%
<i>B&FS</i>	28.2	4.9%
<i>Insurance</i>	7.1	1.6%
Mfg	20.2	4.0%
Retail & Life sciences	22.9	5.4%
<i>Retail & CPG</i>	15.6	1.2%
<i>Transport & Logistics</i>	1.7	-1.3%
<i>Life sciences</i>	3.8	7.3%
<i>Healthcare</i>	1.8	71.0%
Energy, Utilities, Communications & Services	21.6	4.5%
<i>Energy & Utilities</i>	5.7	4.5%
<i>Telecom</i>	10.4	2.5%
<i>Others</i>	5.5	8.4%

Revenues by Geography

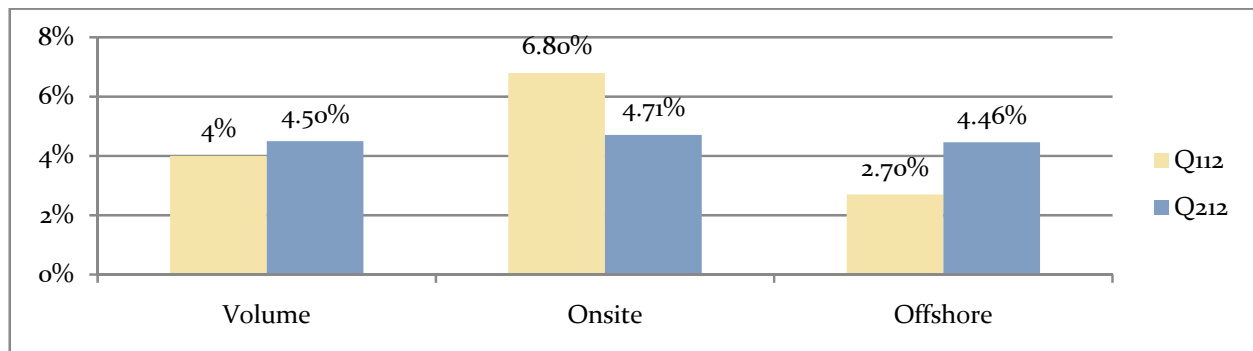
Revenue mix geography-wise remained stable, with 65.3% of revenues from North America (+110bps QoQ), Europe accounting for 20.5% vs.21.3% in Q112, India 2.2% vs.2.6% in Q112 and RoW accounting for 12% vs. 11.9% in Q112. Infosys remains confident on business opportunities in Europe despite the current turmoil and expects to boost footprint in the region. The management said strong traction is experienced in Asia Pacific region especially Australia.

Revenues by Project Type

The share of fixed price projects witnessed a sharp 140bps QoQ to 37.7% however on a LTM basis the mix remained largely unchanged, with fix price project share at 39.7% vs. 39.2%. Time and Material project share consequently during the quarter rose to 62.3% vs. 60.9% in Q112.

Pricing and Volume Growth

Infosys continued to disappointment on the volume growth, at +4.5% compared to estimates of 5% for the quarter. Onsite efforts grew 4.7% QoQ vs. 6.8% while offshore efforts grew 4.5% vs. +2.7%QoQ seen in the June-11 quarter. Onsite pricing declined to 1.6% while Offsite pricing grew 3.1% resulting in blended pricing improving marginally by 50bps. In constant currency terms, pricing improved ~1 percent. The management expects pricing environment to remain stable and does not foresee downside risks to pricing currently.



Source: Company, Banham Research

Client additions:

Infosys witnessed robust client additions, acquiring 45 new clients in Q212 compared to 26 clients in the first quarter of FY12. The company added 1 client in the \$300mn+ bracket, 2 in \$90-100mn, 2 in \$80-90mn, 5 in \$50-70mn and remaining in <\$50mn bracket. Number of clients active rose sharply at 647 from 628 at end of June-11 quarter. Client concentration remained stable, with Top client, Top 5 and Top 10 clients accounting for 4.6%, 15.9% and 25.2% respectively.

Guidance:

Infosys lowered its Dollar revenue growth guidance for FY12 to 17.1-19.1% versus 18-20% growth guided earlier, on account of sharp rise in the US dollar. The company now expects revenues in range of \$7.08bn-\$7.20bn. EPS is expected to be in range of \$3.02-\$3.06, YoY growth of 15.3%-16.8%.

Infosys hiked its earnings per share guidance for FY12 in INR to Rs.143.02-Rs.145.26, YoY growth of 19.7%-21.6%.

Guidance	Earlier	Revised	Oct –Dec Q312
Rupee Guidance			
Revenues	Rs.31777-32311cr	Rs.33501-34088cr	Rs.8826-9012cr
YoY	15.5-17.5%	21.8%-24%	24.2-26.8% 3.2-5.4% QoQ
EPS	128.2-130.08	143.02-145.26	38.51-39.20
YoY	7.3% - 8.9%	19.7% - 21.6%	23.6%-25.8%
Rs./\$	44.5	48.98	48.98
Dollar Guidance			
Revenues	\$7.13-7.25bn	\$7.08-7.20bn	\$1802-1840mn
YoY	18-20%	17.1-19.1%	13.7-16.1%
EPADS	\$2.88- 2.92	\$3.02 - \$3.06	\$0.79-0.80
YoY	10 - 11.5%	15.3%-16.8%	14.5-15.9%

Source: Company, Banham Research

Margins: Infosys on account of favorable currency movement guided for smaller cut in margins to 50-100bps from 250bps expected in June2011.

EBIT mgn Guidance	End of Q112	End of Q212	
		Lower End	Upper End
Rs./\$ Assumed	44.5	47.26	
Lower Utilisations	-100	-80	-80
Residual Wage impact	-70	-110	-110
Currency fluctuation	-80	140	90
Chg in Mgns(bps)	-250	-50	-100

Source: Company, Banham Research

View:

Infosys business outlook continues to remain conservative given the macro situations, however now sound more confident of meeting the challenges in the industry and delivering high quality growth. The company is witnessing significant traction in its investment areas such as Healthcare, Life sciences, Energy, Utility and is well placed to meet demand. The rise in demand for service providers having wide portfolio and shift in preferences for credible global players augurs well for the Infosys.

The robust client addition (45 vs.26 in Q112) provides huge confidence in terms of the company's renewed focus on boosting revenues as it completed its restructuring activity during the quarter. The management remains confident in terms of sustained demand from customers however did mention of delayed decision making on long term/ large investments by clients.

Infosys remains committed to its employee addition target of 45000 for FY12, providing another indicator of its confidence of sustainable demand in the quarters ahead. The higher utilizations (+240QoQ) witnessed during the quarter provides comfort. Infosys has guided for smaller deterioration in margins by 50-100bps compared to 250bps largely driven by favorable currency movement. Hedged positions stood at \$742m compared to \$745mn in Q112.

Healthy growth seen across industry verticals in Q2112 and remains confident of underlying demand as customers focus on higher risk management practices, efficiency, connectivity, optimization and productivity gains, improving customer experience and better analytics.

The company's remains committed to boosting its non linear revenue growth however QoQ growth could witness variability given the cyclical nature of revenue flow.

Overall positive showing for Infosys as the well rounded growth across industry verticals provides confidence. Q212 Volume growth was a slight disappointment however in-line with guidance of an evenly spread out year rather than being frontloaded. Though near term macro uncertainty remains could further delay discretionary spends, the stability in pricing and reiteration by management of clients commitment on maintaining budget spends provides comfort.

We have increased our earnings estimates by 4% for FY12 & FY13 respectively and have lowered our dollar revenue forecast to 17.9% for FY12 from 25% earlier to account for rupee depreciation assuming a Rs./\$ rate of 47.5 compared to 44.5 earlier.

Infosys is currently trading at 19x/16x FY12/13e earnings and have a 'Buy' on the stock for a target price of Rs.3200 (22x/19x FY12/13e EPS).

Quarterly	Q212	Q112	QoQ	YoY
Revenues	8099	7485	8.2%	16.6%
COS	4744	4577	3.6%	19.5%
Gross Profit	3355	2908	15.4%	12.7%
GPM(%)	41.42%	38.85%	257bps	(142)bps
Selling & Mkt	456	398	14.6%	20.0%
Admin	618	558	10.8%	24.1%
Total Opex	1074	956	12.3%	22.3%
Op profit	2281	1952	16.9%	8.7%
OPM	28.16%	26.08%	208bps	(204)bps
other income	387	443	-12.6%	44.9%
PBT	2668	2395	11.4%	12.8%
Tax	762	673	13.2%	21.3%
Tax Rate	28.56%	28.10%	46bps	201bps
PAT	1906	1722	10.7%	9.7%

P/L	FY10	FY11	FY12	FY13
Revenues	22742	27501	33826	41945
Cost of sales	12078	15054	18742	23615
Gross Profit	10664	12447	15084	18329
GPM (%)	46.9%	45.3%	44.6%	43.7%
Selling & Mktg	1184	1512	1890	2363
Admin exp	1628	1971	2444	2982
Total Opex	2812	3483	4334	5344
EBITDA	7852	8964	10750	12985
EBITDA Margin	34.53%	32.60%	31.78%	30.96%
Depreciation	942	862	1000	1150
EBIT	6910	8102	9750	11835
EBIT Margin	30.38%	29.46%	28.82%	28.22%
Other Income	990	1211	1635	1880
Interest	0	0	0	0
PBT	7900	9313	11385	13715
Tax	1681	2490	3188	3881
Tax Rate	21.3%	26.7%	28.0%	28.3%
PAT	6219	6823	8197	9834
EPS	108.89	119.42	143.46	172.10

Analyst:

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RATINGS

Buy	Accumulate	Neutral	Reduce	Sell
>15%	+5>15%	+5%/-5%	-5%<-15%	>-15%

Research:

Vikas Salunkhe	Technical	91 22 421 20 935
Swati Hotkar	Technical	91 22 421 20 938
Hedley Albuquerque	Fundamental	91 22 421 20 934

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