



## Infosys Ltd Result Synopsis

**BUY**

**CMP: Rs.2640**

**Target: Rs. 3200**

### **Q312 performance beats expectations, Q412 guidance disappoints...**

### **FY12 \$ revenue guidance scaled lower, client budgets seen flat to marginally lower...**

Infosys reported better than expected Q312 performance driven by favorable currency impact however volume growth and utilizations have been a disappointment. The IT bellwether reported revenue growth of 15%QoQ at Rs.9298cr however barely managed to meet the lower end of its guided range in USD terms, at \$1806mn, up 3.4% on sequential basis.

**The company has guided for 0-0.2% dollar revenue growth for Q412 while scaled down FY12 guidance to 16.35-16.42% to \$7.029-7.033bn from 17.1-19.1% growth at the end of Q212, based on rate of Rs.52/\$.**

EBIT margins improved 302bpsQoQ to 31.2% largely on account of sharp dollar appreciation (11%) against the INR. The sharp improvement in margins are attributed to 4.4% currency impact while higher opex costs (1.4%), lessened the gains to 300bps. Utilizations (excl. trainees) remained flat at 77.4% compared 77.3% however was sharply lower than the 80.7% seen last year. The company attributed the flattish utilization to seasonality as well as large assimilation of trainees into the workforce.

Net profits rose 24%YoY and to Rs.2372cr resulting in EPS for the quarter growing to Rs.41.51 compared to Rs.33.36 seen at the end of the Sept quarter. The company expects tax rates to continue to be around 28.6% mark.

### **Volume growth disappoints, Pricing improves, outlook stable...**

Volume growth disappointed, posting a 3.1% gain significantly lower than the 3.9% average growth seen over the last 4 years in the 3<sup>rd</sup> Qtr. Pricing improved 0.8% blended as focus on high value business areas such as consulting and system integration, which contributes 30.2% of overall revenues, helped sustain pricing. The company remains focused on business segments where pressure on pricing is likely to be minimal. Mgmt expects pricing environment to remain stable going forward. Key areas of investment showed strong growth with Europe growing 13.7%sequentially geographically, service-wise Retail& Life sciences (+4.3%) however industry-wise C&SI has been sluggish at mere 1.4%.

### **Strong client additions, Top client revenue contribution dips...**

Infy added a healthy 49clients during the quarter with 5 large deals, with 1 each in the FSI and Mfg space and couple in Europe. The company closed 1 transformational deal in Q312. Revenue growth during the Oct-Dec quarter was driven by the non-top10 clients who grew 4.4% however revenue from top client dipped 8%QoQ.

### **Strong lateral additions, attrition remains stubborn**

Infosys net added 3266 employees while lateral additions stood at robust 40% compared to 15% seen at end of Q212. Attrition rate remained stubborn on QoQ basis at 15.4% however has improved from the 17.5% seen in Q311. The company remains committed to its 45K gross addition target as it seeks to build capacities to meet any turnaround in business environment.



## Revenue Profile:

### Revenue by service offering:

**Business operations** which account for 60.7% of revenues have grown 3.1%QoQ which is much slower than 3.4%QoQ overall revenue growth. The application development which accounts for 17.1% of revenues have recorded revenue growth of 3.4%. Application development which contributes 21.8% of revenues recorded revenue growth of 4.4%, significant higher than the 1.2% QoQ seen in Q212. IMS which contributes 10% of segment (Bo) revenues witnessed traction, growing 8.8%QoQ compared to 2.7% and 0.9% sequential growth seen in the Q212 and Q112 respectively. Business Process mgmt Services revenue declined 0.4% QOQ after healthy uptick in the September quarter.

**Business transformation** segment which accounts for 1/3rd of overall revenues, consisting of consulting and system integration services recorded revenue growth of mere 1.4%. The management expects C & SI services which are discretionary spend in nature, could come under the pressure if the situation deteriorates. The challenging environment enveloping the industry and the sluggishness observed in discretionary spend, were influential reasons for the flat guidance for the Jan-Mar-12 quarter.

**Business Innovation** segment which consists of the Products, Platforms and Solutions, recorded a strong growth of 13.9% QoQ on account of base effect. Revenues from the segment are largely annuity in nature and hence the strong growth seen in the current quarter. Finacle™ added 10 clients during the quarter with 4 from EMEA and 6 from Asia Pacific region.

Revenue by service offering:	% of sales	QoQ	YoY
<b>Business Operations</b>	<b>60.7</b>	<b>3.1%</b>	
<i>Application Development</i>	17.1	3.4%	24.9%
<i>App Maintainance</i>	21.8	4.4%	10.4%
<i>IMS</i>	6.10	8.8%	15.8%
<i>Testing</i>	7.9	-0.3%	18.4%
<i>Bus. Process Mgmt Services</i>	5.2	-0.4%	5.8%
<i>Others*</i>	2.6	-4.0%	5.8%
<b>Business Transformation</b>	<b>30.6</b>	<b>1.4%</b>	
<i>Consulting &amp; System Integration</i>	30.6	1.4%	9.6%
<b>Business Innovation</b>	<b>8.7</b>	<b>13.9%</b>	
<i>Products</i>	4.8	18.2%	3.2%
<i>Products Eng Services</i>	3.6	9.5%	64.1%
<i>Others*</i>	0.3	3.4%	13.9%

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

## Revenue by Industry

**FSI** reported 3.4% sequential growth and 4.0% in constant currency. The B&FS reported a mild 2.3% QoQ growth however Insurance grew robust 7.8% QoQ. The management remains confident of the FSI holding up and sluggishness seen in the quarter is on account of few accounts.

**Manufacturing** sector continues to remain in good stead, growing 4.5% sequentially and 4% in constant currency. The mfg sector accounts for 20.4% of overall revenues.

**Retail and Life sciences** remains a key investment area for the Infosys and the sector has delivered healthy performance over last several quarters. RCL has reported 4.3% sequential growth and 5.3% in constant currency terms. Life sciences and Transport & Logistics were the major drivers of growth, at 21.7% and 11.6% respectively however retail & CPG witnessed flat revenue growth, up merely 0.8%.

**ECS** grew by 1.5% sequentially and 2.8% in constant currency, largely on account of weak performance from telecom (-2.5%QoQ) which accounts for 46.2% of segment (ECS) revenues. The ECS vertical contributes 21.2% of overall revenues, witnessed strong 8.9%QoQ growth in the Energy and Utilities segment.

Revenue by Industry	% of Sales Q312	Growth QoQ
<b>Insurance, Banking &amp; Financial Services</b>	<b>35.3</b>	<b>3.4%</b>
<i>B&amp;FS</i>	27.9	2.3%
<i>Insurance</i>	7.4	7.8%
<b>Mfg</b>	<b>20.4</b>	<b>4.5%</b>
<b>Retail &amp; Life sciences</b>	<b>23.1</b>	<b>4.3%</b>
<i>Retail &amp; CPG</i>	15.2	0.8%
<i>Transport &amp; Logistics</i>	2.0	21.7%
<i>Life sciences</i>	4.1	11.6%
<i>Healthcare</i>	1.8	3.4%
<b>Energy, Utilities, Communications &amp; Services</b>	<b>21.2%</b>	<b>1.5%</b>
<i>Energy &amp; Utilities</i>	6.0	8.9%
<i>Telecom</i>	9.8	-2.5%
<i>Others</i>	5.4	1.6%

Source: Company and Banham Research

## Revenues by Geography

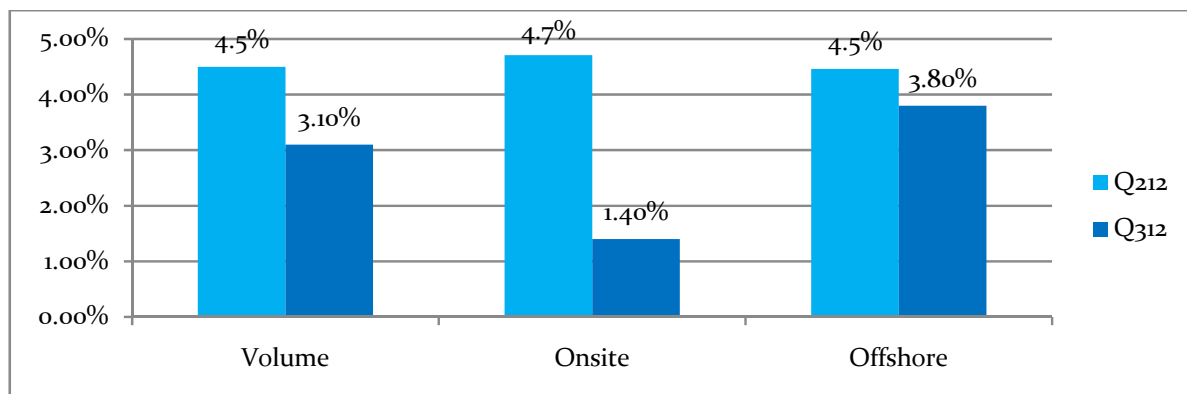
Revenue mix witnessed surprising shift with contribution from North America declining 1.6%QoQ to 63.7% while the management effort to expand footprint in Europe seems to be has been successful, with revenue contribution growing 210bps to 22.60%. The company expects higher business growth from Europe given the lower level of off shoring in the region relative to America region. The company won 1 large deal and added 14clients in the region. Revenues from NA grew a tepid 0.9% QoQ(1.1%ccy) while Europe revenue grew an enormous 14% QoQ(16.8%ccy). India revenue contribution dipped 10bps to 2.1% while revenues declined 1.3%QoQ. ROW revenue share dipped 40bps while revenues remained flat. Strong traction is expected in the Asia pacific region especially Australia.

## Revenues by Project Type

The share of fixed price projects witnessed a sharp uptick of 370bps QoQ to 40.9% however on a LTM basis the mix remained largely unchanged, with fix price project share at 39.6% vs. 39.9%. Time and Material project share for Q312 consequently declined to 59.1% vs. 62.3% in Q112, while on LTM basis stood at 60.4%.

## Pricing and Volume Growth

Infosys continued to disappointment on the volume growth, at +3.1% compared to estimate of 4% for the quarter. Onsite efforts grew 1.4% QoQ vs. 4.7% while offshore efforts grew 3.8% vs. +4.5%QoQ seen in the Sept-11 quarter. Blended pricing improved marginally by 80bps. The management expects pricing environment to remain stable.



Source: Company, Banham Research

## Client additions:

Infosys witnessed robust client additions, acquiring 49 new clients in Q312 compared to 45 clients in the second quarter of FY12. Infy added 5 large deals during the quarter of which 2 deals of above \$500mn. Number of clients active rose sharply at 665 from 647 at end of Sept-11 quarter. Client concentration remained largely stable, with Top client, Top 5 and Top 10 clients accounting for 4.1%, 15% and 24.5% respectively.

## Guidance:

Infosys further lowered its dollar revenue growth guidance for FY12 to 16.35-16.42% versus 17.1-19.1% growth guided earlier, on account of sharp rise in the US dollar. The company now expects revenues in range of **\$7.029-7.033bn**. EPS is expected to be in range of \$3.0, YoY growth of 14.5%.

Infosys hiked its earnings per share guidance for FY12 in INR to Rs.147.13, YoY growth of 23.2%.

Guidance	Earlier	Revised	Oct –Dec Q312
<b>Rupee Guidance</b>			
Revenues	Rs.33501-34088cr	Rs.34273-34294cr	Rs.9391-9412cr
YoY	21.8-24%	24.6%-24.7%	29.5-29.8% 1-1.23% QoQ
EPS	143.02-145.26	147.13	42.12
YoY	19.7%-21.6%	23.2%	32.4%
Rs./\$	48.98	52.00	52.00
<b>Dollar Guidance</b>			
Revenues	\$7.08-7.20bn	\$7.02-7.033bn	\$1806-1810mn
YoY	17.1-19.1%	16.35-16.42%	0-0.2%
EPADS	\$3.02-\$3.06	\$3.0	\$0.81
YoY	15.3%-16.8%	14.5%	15.7%

Source: Company, Banhem Research

## View:

Infosys despite a strong quarter in terms of client additions and healthy growth in key investment areas such as Europe and RCL and pricing holding up, its flat outlook for Q412 has been a disappointment. Though the company did attempt to scale back market expectations mid quarter (Q312), the extremely conservative guidance came as a negative surprise. The guidance could be reflective of the sluggishness being seen at key clients' venues and also the delay in decision making especially in discretionary spend areas seems to have worsened further. The underperformance of C&SI (1.4%QoQ vs.3.4% overall) seems to be a reflection of slowdown in discretionary spend. The company has indicated client budget would be flat to marginally lower for CY12.

Infosys seems to be witnessing near term challenges in accelerating overall revenue growth as 1/3<sup>rd</sup> of revenues come from C&SI, which remains under pressure. However the company's focus on C&SI bodes well from the long term perspective and will be major lever for improved pricing going ahead. The company won 1 transformation deal during the quarter.

Infy remains best placed to take advantage of turnaround in business sentiment given its relatively low utilization levels (77.4% Q312) and healthy lateral additions(34%TTM) to workforce augurs well in terms of capacities and capabilities. **We note absolute attrition for the quarter has moved lower however Attrition rate (15.4%) remains stubborn at current levels as average attrition (abs) for trailing 4-quarters has grown 2%QoQ, similar pace seen in Q212.** The company has maintained its gross employee addition target of 45,000 and has made campus offers of 23K for FY13.

**We believe despite near term challenges in scaling up revenue growth, the wide portfolio offering, strong capacity to satiate revival in business conditions, focus on expanding business sourcing network, legendary focus on margins, stable pricing power due to focus on non-commoditized business segments, healthy traction in non-linear initiatives, makes the Infosys an attractive buy.**

We have revised our INR/USD assumption to Rs.48.5 and Rs.50 for FY12 and FY13 respectively. Consequently dollar revenue growth for FY12 and FY13 now stands at 17% and 14% respectively. In INR terms, we expect Infy to report EPS for FY12 and FY13 at Rs.146.80 and Rs.172.64 compared to 143.46 and 172.10 estimated earlier.

**Infosys is currently trading at 15x FY13e EPS and expected to trade at 19xFY13e EPS giving us our target price of Rs.3200.**

Quarterly	Q312	Q212	QoQ	YoY
Revenues	9298	8099	14.8%	30.8%
COS	5288	4744	11.5%	30.2%
Gross Profit	4010	3355	19.5%	31.8%
<b>GPM (%)</b>	<b>43.1%</b>	<b>41.4%</b>	<b>170bps</b>	<b>30bps</b>
Selling & Mkt	451	456	-1.1%	14.8%
Admin	660	618	6.8%	31.2%
Total Opex	1111	1074	3.4%	24.0%
Op profit	2899	2281	27.1%	35.0%
<b>OPM</b>	<b>31.2%</b>	<b>28.2%</b>	<b>300bps</b>	<b>100bps</b>
other income	422	387	9.0%	45.5%
PBT	3321	2668	24.5%	36.3%
Tax	949	762	24.5%	44.4%
Tax Rate	28.58%	28.56%	0.0%	2%
PAT	2372	1906	24.4%	33.3%

P/L	FY10	FY11	FY12	FY13
Revenues	22742	27501	34266	40272
Cost of sales	12078	15054	19119	22962
Gross Profit	10664	12447	15147.67	17310
<b>GPM (%)</b>	<b>46.9%</b>	<b>45.3%</b>	<b>44.2%</b>	<b>43.0%</b>
Selling & Mktg	1184	1512	1733	1876
Admin exp	1628	1971	2489	2926
Total Opex	2812	3483	4223	4802
EBITDA	7852	8964	10925	12508
<b>EBITDA Margin</b>	<b>34.53%</b>	<b>32.60%</b>	<b>31.88%</b>	<b>31.06%</b>
Depreciation	942	862	931	1056
EBIT	6910	8102	9994	11452
Interest	0	0	0	0
Other Income	990	1211	1737	2364
PBT	7900	9313	11731	13816
Tax	1681	2490	3343	3932
Tax Rate	21.3%	26.7%	28.5%	28.5%
<b>PAT</b>	<b>6219</b>	<b>6823</b>	<b>8388</b>	<b>9834</b>
EPS	108.89	119.42	146.80	172.64

## Analyst:

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## RATINGS

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

## Research:

Swati Hotkar	Technical	91 22 421 20 935
Avdhut Bagkar	Technical	91 22 421 20 926
Hedley Albuquerque	Fundamental	91 22 421 20 934

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