Infosys Ltd Result Synopsis

Accumulate

CMP: Rs.2403

Target: Rs. 2760

Q412 Performance a disappoint on all parameters, Misses guidance. FY13 Guidance of 8-10% revenue growth sharply below expectations.

Infosys reported Q412 performance sharply below expectations with revenues declining 4.8%QoQ to Rs.8852cr, significantly below the guided range of 9391-9412cr, which the management attributed to sudden ramp-downs in business towards the end of the quarter while rupee appreciation (1.1%QOQ) hurt growth. Net profit declined 2.4% to Rs.2316cr. In USD terms, revenues recorded a decline of 1.9%QoQ (-2.1%ccy) at $1771mn.

The management negatively surprised with a FY13 guidance of 8-10% $ revenue growth significantly lower compared to NASSCOMs projected growth of 11-14% for the full year. Infy has guided for FY13EPS growth of 9.1-10.9% at Rs.158.76-161.41, compared to Rs.145.54 posted for FY12.

We have lowered our revenue and earnings estimates for FY13 by 4% and 5% respectively, with a EPS of Rs.164.03 from Rs.172.64 earlier and lower our target multiple to 15x compared to 19x 1-yr fwd earlier, resulting in target price of Rs.2760(Rs.3200 earlier). Downgrade to Accumulate.

Volume growth disappoints, Pricing erodes, outlook stable…

Volume growth disappointed, declining 1.5% compared to expectations of flat to positive growth. Pricing deteriorated 1.1%, symptomatic of the weak quarter. The company remains focused on consulting and system integration space, however the C&SI also witnessed some ramp-downs during the quarter. Mgmt expects pricing environment to remain stable going forward. Key areas of investment disappointed, service-wise Retail& Life sciences (-2.8%) while industry-wise C&SI fell 0.3% while geographically, Europe's 0.2% sequential growth was the only silver lining.

Strong client additions, Top client revenue contribution continue to falter

Infy added a healthy 52clients during the quarter, won 5 deals of which 3 above $100mn. Of new client additions, 8 are in Fortune 500(US) and four in Fortune 500 global. Infy won 7 transformational deals during the quarter. Revenue were impacted during the Jan-Mar quarter as non-top10 clients declined 1.8% (vs. +4.4%in Q312) while revenue from top client continued to contract, down 2%QoQ.

Strong lateral additions, attrition remains budges, wage hikes on hold

Infosys net added 4906 employees while lateral additions stood at robust 44% compared to 40% seen at end of Q312. Utilizations (excl. trainees) continued its downtrend, at 73% vs. 77.4% in Q312. Attrition rate budged on QoQ basis at 14.70% however has improved from the 17% seen in Q411. The company plans to hire 35K gross addition during the year of which 13K will be for the BPO business. Infosys has decided to put on hold its annual wage hikes, which could hurt its efforts to stem attrition.

Revenue Profile:
Revenue by service offering:

Business operations which account for 62.7% of revenues have decline 3.2%QoQ dragging overall revenues. Application development which accounts for 16.9% of revenues has recorded a fall of 3.1%. The fall in Application Maintenance revenues, which contribute 20.9% of revenues, was more severe, declining 6%QoQ, partly on account of healthy 4.4% QoQ seen in Q312. IMS which contributes 10% of segment (Bo) revenues were flat after the sharp 8.8%QoQ growth seen in Q312. Business Process mgmt Services revenue witnessed traction growing 7% QoQ with sharp client additions as well as improved margins.

Business transformation segment which accounts for 1/3rd of overall revenues, consisting of consulting and system integration services, revenue growth was flat, declining 0.3%. The C&SI services which are discretionary spend in nature did come under the pressure as expected by the management in the previous quarter. The challenging environment enveloping the industry and the lack of visibility on budget spending patterns, have resulted in flat guidance for the Q1 quarter as well as weak full year guidance.

Business Innovation segment which consists of the Products, Platforms and Solutions, recorded a strong growth of 3% QoQ. Revenues from the segment have accounted for 6.2% of overall revenues and remains important focus area for Infosys. The company won 12deals during the quarter, 8 for Infosys Edge™ and 4 in industry focused products. Finacle™ added 14 clients during the quarter with 6 from EMEA and 8 from Asia Pacific region. Infosys ended the quarter with a TCV of $350mn.

Revenue by service offering:	% of sales	QoQ	YoY
Business IT Services	**62.7**	**-3.2%**	
Application Development	16.9	-3.1%	16.0%
App Maintainance	20.9	-6.0%	5.0%
IMS	6.2	-0.3%	12.4%
Testing	7.8	-3.2%	18.1%
Bus. Process Mgmt Services	4.8	7.0%	8.0%
Products Eng Services	3.4	-7.4%	56.6%
*Others**	2.7	1.8%	-0.5%
Consulting, Package Implementation & Others	**31.10**	**-0.3%**	
Consulting & System Integration & Others	31.10	-0.3%	8.5%
Products, Platforms & Solutions	**6.2**	**3.0%**	
Products	4.4	-10.1%	-9.9%
*Bus. Process Mgmt (BPM) Platform**	1.4	71.6%	121.1%
Others	0.4	30.7%	47.4%

*Reported under "Business IT Services" in previous quarters; Source: Company and Banhem Research

Revenue by Industry

FSI reported 4.6% sequential decline and 5.0% in constant currency. B&FS revenues declined 3.7% QoQ growth while Insurance fell 8.6% QoQ. The management despite its confidence at the end of Q312, the B&FS sector witnessed the most ramp-downs in the quarter. Infosys is now not witnessing any clarity on budget spends by the sector and hence weighing on the overall outlook for the company.

Manufacturing sector continues to perform relatively well, growing 2.2% sequentially and 2.3% in constant currency. The mfg sector accounts for 21.3% of overall revenues.

Retail and Life sciences remains a key investment area for the Infosys and the sector after delivering healthy performance over last several quarters, turned weak this quarter. RCL witnessed 2.9% sequential decline as well as in constant currency terms. Life sciences, Transport & Logistics and Healthcare which contribute over 1/3rd of segment revenues recorded a decline of 21.6%, -6.7% and -12.8% respectively. Retail & CPG which accounts for 69% of segment and 15.8% of overall revenues grew 1.9%, thus limiting the fall in segment revenues.

ECS revenues declined by 0.3% sequentially and 0.9% in constant currency, as Telecom which accounts for 47% of segment (ECS) revenues, grew 1.1%. Energy and Utility which contributes 6% of overall revenues, was flat.

Revenue by Industry	% of Sales Q412	Growth QoQ
Insurance, Banking & Financial Services	**34.3**	**-4.7%**
B&FS	27.4	-3.7%
Insurance	6.9	-8.6%
Mfg	**21.3**	**2.4%**
Retail & Life sciences	**22.90**	**-2.8%**
Retail & CPG	15.8	1.9%
Transport & Logistics	1.6	-21.6%
Life sciences	3.9	-6.7%
Healthcare	1.6	-12.8%
Energy, Utilities, Communications & Services	**21.5**	**-0.6%**
Energy & Utilities	6.1	-0.3%
Telecom	10.1	1.1%
Others	5.3	-3.8%

Source: Company and Banhem Research

Revenues by Geography

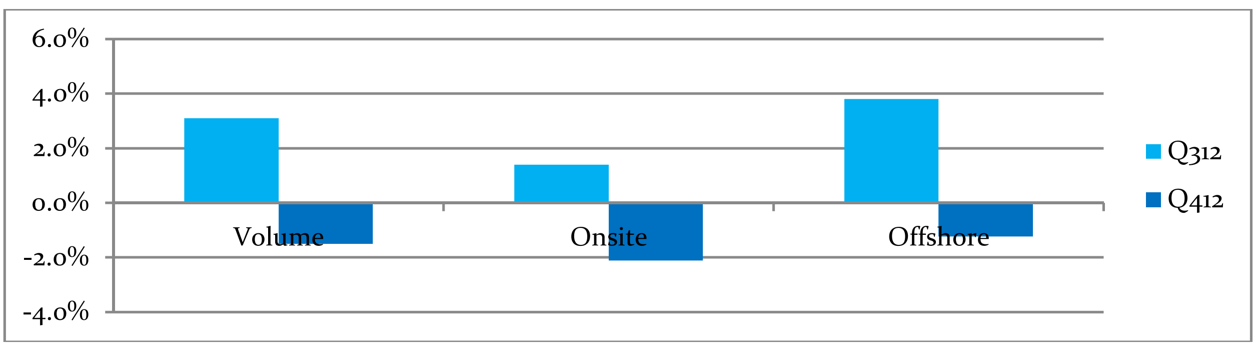
Revenue mix continued to witness fall in contribution from North America, declining 130bps QoQ to 62.4% while the management effort to expand footprint in Europe continues to fructify, with revenue contribution growing further 50bpsQoQ to 23.10% after the 210bps rise in Q312. The company expects higher business growth from Europe given the lower level of off shoring in the region relative to America region. Revenues from NA declined 4% QoQ (4.1%ccy) while Europe revenue grew 0.2% QoQ (0.8%ccy). India revenue contribution dipped 10bps to 2.0% while revenues declined 6.6%QoQ. ROW revenue share grew 90bpsQoQ while revenues grew 5.67%.

Revenues by Project Type

The share of fixed price projects declined 150bps QoQ to 39.4% while Time and Material project grew to 60.6% vs. 59.1% in Q312. For full year, the mix remained largely similar, with fixed price at 39.3% and T&M at 60.7%.

Pricing and Volume Growth

Infosys continued to disappointment on the volume growth, declining 1.5% compared to expectations of flat to positive growth for the quarter. Onsite efforts fell 2.1% QoQ vs. +1.4% in Q312 while offshore efforts declined 1.2% vs. +3.8%QoQ seen in the Dec quarter. Pricing declined 1.1%QoQ. The management expects pricing environment to remain stable.



Source: Company, Banhem Research

Client additions:

Infosys continued to witness robust client additions, acquiring 52 new clients in Q412 compared to 49 clients in the third quarter of FY12. Infy added 5 large deals during the quarter with 3 in $100mn plus category. Of new client additions, 8 are in Fortune 500(US) and four in Fortune 500 global. Infy won 7 transformational deals during the quarter. Number of clients active rose sharply at 694 from 665 at end of Dec-11 quarter. Client concentration remained largely stable, with Top client, Top 5 and Top 10 clients accounting for 4.1%, 15.4% and 24.4% respectively. Share of Repeat business has however dipped 140bps QoQ to 96%.

Guidance:

Infosys after missing its full year guidance for FY12, has now projected a bleak outlook for FY13, guiding for a growth of 8-10% to $7.553bn-7.692bn. Similar cautiousness was visible in the Q1FY13 guidance, projecting a growth of 0-1% to $1771-1789mn.

Infosys has guided for FY13 EPS to range between Rs.158.76-161.41, translating to YoY growth of 9.1% to 10.9%.

	FY12	FY12	FY13	Q113
Rupee Guidance	**Guidance**	**Actual**	**Guidance**	
Revenues	Rs.34273-34294cr	Rs.33734cr	Rs.38431-39136cr	Rs.9011-9100cr
YoY	*24.6%-24.7%*	*22.70%*	*13.9-16.0%*	*20.4-21.6%* 1.79-2.80% QoQ
EPS	147.13	145.54	158.76-161.41	36.89
YoY	*23.20%*	*21.90%*	*9.1-10.9%*	*22.40%*
Rs./$	52	50.88	50.88	50.88
Dollar Guidance				
Revenues	$7.02-7.033bn	$6.994bn	$7.553-7.692bn	$1.771-1.789bn
YoY	*16.35-16.42%*	*15.80%*	*8-10%*	*6.0-7.1%* 0-1%QoQ
EPADS	$3.00	$3.00	$3.12-3.17	$0.73
YoY	*14.50%*	*14.50%*	*4-5.7%*	*9.00%*

Source: Company, Banhem Research

View:

Infosys seems to be experiencing extremely challenging environment given the macro uncertainty and hence has preferred to play it safe by sharply pegging back expectations through its guidance of 8-10% growth.

The company has disappointed on all parameters namely pricing, volume growth and consequently revenue growth and profitability. In spite of all the gloom, there are key areas wherein the company has managed to plug the gap.

Infy has regained the traction on account of 1) Client additions 2) its focus on improving non linearity in the business seems on track with improving revenue contribution from Products Platforms and solutions, 3) BPO business has been gaining traction with healthy improvement in revenues, client additions and margins 4) higher contribution from Europe which has huge potential given the low outsourcing rate. **Hence Infy has managed to show improvement in key focus areas.**

The flat performance from C&SI space is a disappointment and considering the economic uncertainty prevailing and discretionary nature of spend, volatility in the segment could continue going forward. C&SI has logged in revenue growth of 15.8% for FY12 which is at par with overall revenue growth and provides comfort on Infy's ability to sustain revenue growth in segment. The company will be hiring 1200 employees' onsite in America and Europe to boost its consulting revenues.

We believe Infosys is witnessing significant pressure to scale up revenues as contrasting priorities seem to be at play with clients focusing on gaining higher value for every dollar spent while Infosys legendary focus on margins. Infosys remains focused on quality of growth and hence are adopting a strategy to focus on C&SI, RCL and exploring greater opportunities in the ECS space, where margins are relatively better. The management expects pricing to remain stable going forward.

We have lowered our revenue and earnings estimates for FY13 by 4% and 5% respectively, resulting in an EPS of Rs. 164.03 from Rs.172.64 earlier and lower our target multiple to 15x compared to 19x 1-yr fwd earlier, resulting in target price of Rs.2760(Rs.3200 earlier). Downgrade to Accumulate.

Quarterly (Rs.cr)	Q412	Q312	QoQ	YoY
Revenues	**8852**	**9298**	**-4.8%**	**22.1%**
COS	5199	5288	-1.7%	22.8%
Gross Profit	3653	4010	-8.9%	21.1%
GPM (%)	**41.3%**	**43.1%**	**-190bps**	**-30bps**
Selling & Mkt	452	451	0.2%	13.0%
Admin	554	660	-16.1%	7.8%
Total Opex	1006	1111	-9.5%	10.1%
Op profit	2647	2899	-8.7%	25.9%
***OPM* (%)**	**29.9%**	**31.2%**	**-1.3%**	**0.9%**
other income	652	422	54.5%	57.1%
PBT	3299	3321	-0.7%	31.1%
Tax	983	949	3.6%	40.6%
Tax Rate	29.80%	28.58%	120bps	200bps
PAT	**2316**	**2372**	**-2.4%**	**27.4%**

Quarterly ($ mn)	Q412	Q312	QoQ	YoY
Revenues	**1771**	**1806**	**-1.9**	**10.5%**
COS	1041	1030	1.1	11.2%
Gross Profit	730	776	-5.9	9.6%
GPM (%)	**41.2%**	**43.0%**	**-170bps**	**-40bps**
Selling & Mkt	91	88	3.4%	3.4%
Admin	111	128	-13.3%	-2.6%
Total Opex	202	216	-6.5%	0%
Op profit	528	560	-5.7%	13.8%
***OPM* (%)**	**29.8%**	**31.0%**	**120bps**	**80bps**
other income	131	82	59.8%	42.4%
PBT	659	642	2.6%	18.5%
Tax	196	184	6.5%	27.3%
Tax Rate	29.7%	28.7%	110bps	200bps
PAT	**463**	**458**	**1.1%**	**15.2%**

All figures in Rs.cr

Profit & Loss	FY10	FY11	FY12	FY13e	FY14e
Revenues	22742	27501	33734	38642	43229
Cost of sales	12078	15054	18871	21969	24597
Gross Profit	10664	12447	14863	16673	18632
GPM (%)	**46.9%**	**45.3%**	**44.1%**	**43.1%**	**43.1%**
Selling & Mktg	1184	1512	1757	1976	2152
Admin exp	1628	1971	2390	2858	3254
Total Opex	2812	3483	4147	4834	5406
EBITDA	7852	8964	10716	11839	13226
EBITDA Margin	34.5%	32.6%	31.8%	30.6%	30.6%
Depreciation	942	862	937	1073	1168
EBIT	6910	8102	9779	10766	12058
Other Income	990	1211	1904	2342	2551
Interest	0	0	0	0	0
PBT	7900	9313	11683	13109	14609
Tax	1681	2490	3367	3736	4090
Tax Rate	21.3%	26.7%	28.8%	28.5%	28.0%
PAT	6219	6823	8316	**9373**	**10518**
EPS	108.89	119.42	145.54	164.03	184.08

Balance sheet	FY10	FY11	FY12	FY13e	FY14e
Assets					
Cash and Cash Eq	12111	16666	20591	26679	33779
Other Current Assets	8779	7023	9655	10055	10725
Non Current Assets	6722	7574	8102	8460	8830
Total Assets	**27612**	**31263**	**38348**	**45195**	**53334**
Liabilities					
Equity	286	286	286	286	286
Networth	24073	27303	33461	40021	47743
Liabilities	3539	3960	4887	5173	5591
Total Liabilities	**27612**	**31263**	**38348**	**45195**	**53334**

Cash Flow	FY10	FY11	FY12	FY13e	FY14e
Cash from Operations	6,873	5,907	8,212	10,315	11,347
Cash from Investments	-4,388	2,231	-2061	-1588	-1475
Cash from Financing	-1,480	-3,641	-2,321	-2,639	-2,772
Net Chg in cash	1,005	4,497	3830	6089	7100

Analyst:

Hedley Albuquerque
fundamentals@banhem.in
91 22 421 20 934

RATINGS

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

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