

Infosys

Target Price : Rs 3056

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Despite a slowdown in global environment the company so far has not seen any cut in prices or cancellation of projects in its core business. Revenue growth is likely to remain healthy despite of the present state of global economy; rupee depreciation would help to cushion margins and earnings.

Indian companies, not to cut on IT spending

Information technology heads at India's top enterprises will not trim their budgets for 2012, and are expected to spend nearly \$25 billion next year along with large government departments for buying new software applications, IT services and computer hardware. Even some companies are willing to hike their IT budget by 1-2%.

Telecommunications segment, which is currently the largest spender on IT will continue to be so in the coming year followed by IT Services Industry, Pharma sector has been slow to catch up on tech, but expect to improve as time goes on.

Acquisition of Portland to benefit margin

Infosys BPO has recently announced the acquisition of Portland Group, an Australia based leading provider of strategic sourcing and category management services. The deal is an all-cash deal and Infosys agreed to pay A\$37mn for the acquisition. Margin profile of Portland is better than that of Infosys Australia and Infosys BPO. However this acquisition will not result in any major improvement in the overall financial performance of the Infosys Group.

About Portland Group: Portland Group, was founded in 1999, is a leading consulting and managed services company specializing in category management, strategic sourcing and procure to pay. The main focus areas include procurement, supply chain, asset optimization and global sourcing capabilities. The company has offices in Sydney, Melbourne, Brisbane, Perth, Shanghai, Auckland and Pune. The company currently has 113 employees.

Valuation & Recommendation:

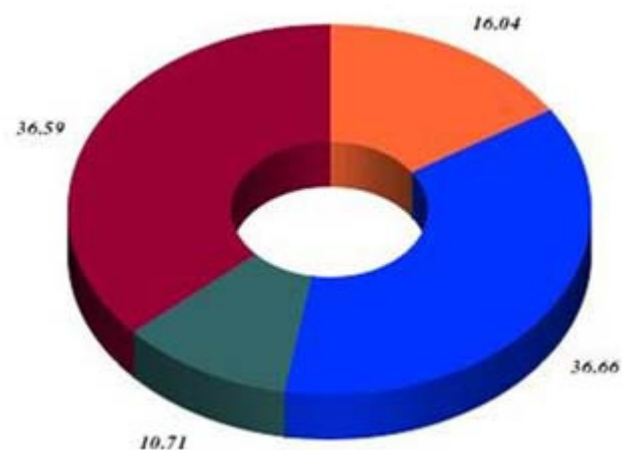
The acquisition of Portland group will not bring in any major impact on the financials, however it will definitely help the company to add new capabilities to the group therefore we see the deal quite positive for the stock in the long run. The current de-valuation in rupee is positive for the company and will help Software exporting companies to post decent Q3 results. We expect a growth of over 8 percentages in the IT space and thus we initiate a 'BUY' rating with a target price of Rs 3056, ie 23x FY13E earnings estimate.

Stock Data(as on 29/12/2011)

Current Price	Rs 2749.40
Target Price	Rs 3056
Percentage Up/Down	11.15%
Stock Beta	0.58
52 week range High/Low	Rs 3499/2161.50
Market Cap(Mil)	Rs 1,576,637.00
Shares Outstanding(Mil)	571.00
Face Value	Rs 5
Average daily volume	1020746
NSE code	INFY
BSE Code	500209
Reuters code	INFY.NS
Bloomberg code	INFO:IN
S&P CNX NIFTY	4690.70
BSE SENSEX	15702.69

Major share-holders

■ Promoters
 ■ Foreign
 ■ DII
 ■ Public & Others



For analyst certification and other important disclosures, refer to the Disclosure Section located at the end of this report.

Key Financials (Rs in Crore)

Infosys Ltd

Consolidated Profit & Loss account	2009A	2010A	2011A	2012E	2013E
Income from software services, products & business process mgmt	21693	22742	27501	30964	36131
Software development & business process management charges	11765	12071	15054	17029	20226
GROSS PROFIT	9928	10671	12447	13936	15905
Selling & Marketing expenses	1104	1184	1512	1769	2163
Operating profit before depreciation & minority interest	7195	7861	8968	10005	11250
Depreciation & Amortization	761	905	854	905	905
Operating profit before tax & minority interest	6434	6956	8114	9100	10346
Net profit before tax & minority interest	6907	7899	9325	10796	12630
Provision for taxation	919	1681	2490	3688	5168
Net profit after tax & minority interest	5988	6275	6835	7107	7462

Key Balance Sheet Data (Consolidated)	2009A	2010A	2011A	2012E	2013E
SOURCES OF FUNDS					
SHAREHOLDER'S FUNDS					
Share Capital	286	286	286	286	286
Reserves and surplus	17968	22763	25690	30718	35685
	18254	23281	26152	31129	36062
APPLICATION OF FUNDS					
FIXED ASSETS					
INVESTMENTS	5354	5355	5760	5972	6282
CURRENT ASSETS, LOANS AND ADVANCES	0	3702	144	6	0
Cash and bank balances	9695	10556	15095	18835	22900
Loans and advances	3279	4197	5320	6776	7793
	16646	18247	25068	30850	36565
LESS: CURRENT LIABILITIES AND PROVISIONS					
Current Liabilities	2004	2343	2677	3094	3555
Provisions	1868	2112	2640	3138	3826
NET CURRENT ASSETS	12774	13792	19751	24617	29184
	18254	23281	26152	31129	36062

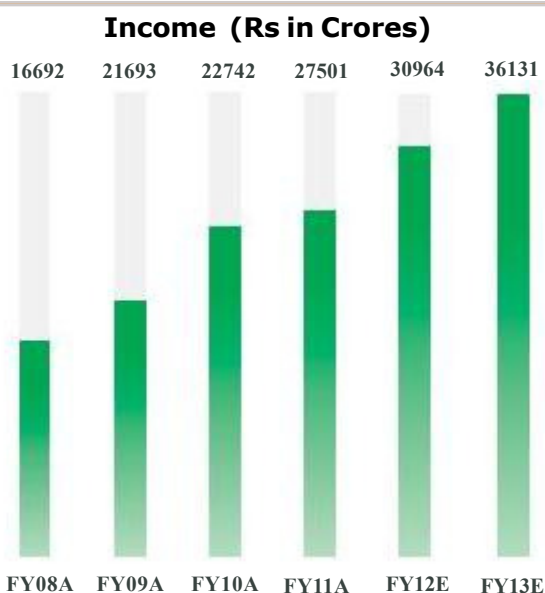
Consolidated Cash Flow statement	2009A	2010A	2011A	2012E	2013E
CASH FLOW FROM OPERATING ACTIVITIES					
Net profit before tax, minority interest & Exceptional items	6907	7899	9325	10796	12630
Adjustments to reconcile net profit before tax to cash					
Depreciation	761	905	854	905	905
NET CASH GENERATED BY OPERATING ACTIVITIES	5325	6187	4752	2904	3341
CASH FLOW FROM INVESTING ACTIVITIES					
Interest and dividend received	1,056	871	1,148	1,513	1,843
NET CASH USED IN INVESTING ACTIVITIES	-213	-3,603	3,398	6,692	11,939
CASH FLOW FROM FINANCING ACTIVITIES					
NET CASH USED IN FINANCING ACTIVITIES	-2,430	-1,485	-3,640	-4,713	-5,670
Free cash flow	1,196	-781	4,228	6,823	11,227

Key Ratio Analysis	2009A	2010A	2011A	2012E	2013E
Cost of sales/Total Revenue (%)	54.23	53.08	54.74	54.99	55.98
Gross profit/Total Revenue (%)	45.77	46.92	45.26	45.01	44.02
Operating Profit/Total Revenue (%)	33.17	34.57	32.61	32.31	31.14
Tax/PBT (%)	13.31	21.28	26.70	34.17	40.92
PAT growth (%)	-	4.79	8.92	3.98	4.99
ROCE (%)	56.41	46.64	49.38	46.48	46.15
ROE (%)	32.80	27.22	26.31	22.92	20.74
EPS	105	110	119	124	130
EPS growth (%)	NA	5	9	4	5
P/E	29.19	27.86	25.58	24.60	23.43

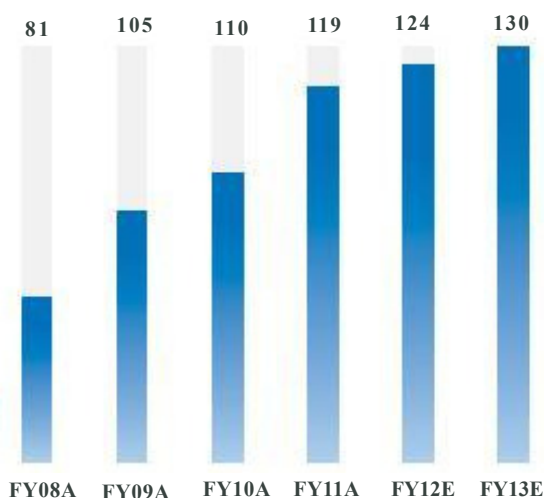
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Key Ratio Analysis

Infosys Ltd



Earnings Per Share (in Rs)



Company Description

Infosys Limited (NASDAQ: INFY) was started in 1981 by seven people with US\$ 250. Today, its a global leader in the "next generation" of IT and consulting with revenues of US\$ 6.604 billion (LTM Q2-FY12).Infosys defines, designs and delivers technology-enabled business solutions for Global 2000 companies.

Company's services ranges from business and technology consulting, application services, systems integration, product engineering, custom software development , maintenance , re-engineering, independent testing and validation services, IT infrastructure services and business process outsourcing.

Analyst Certification

I Rethish Varma.S, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Share Price Chart



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