

INFOSYS LTD

Surprises street with better 3Q FY13 numbers and raises guidance...

Infosys Ltd surprises the street with better numbers and raised guidance. Company reported 12% Sales growth led by 16% growth on Consulting and System Integration (contributes 33% of Sales) and 17% growth on Business Process Management (contributes 5% of Sales). On geographical front (**Figure:1.4**), company's sales from European region (contributes 24% of Sales) increased by 16%, RoW (contributes 13% of Sales) up by 7.4%, while major contributor US (contributes 61% of Sales) increased by 1% on sequential basis.

In US dollar term (Figure:1.1), Net income was at USD 434 mn, compared with USD 431 million in Q2. Revenue including that of Lodestone, the Zurich-based management consultancy firm it had acquired in September 2012, rose 6% sequentially (6% YoY) to USD 1.91bn.

Volume Growth (Figure: 1.2):Despite of US Sandy Hurricane and furloughs affect, Company registered a volume growth of 4.5% and pricing growth of 1.8%. It is important to recognize that the pricing growth shows up only late in the quarter.

On segmental front, its BFSI (contributes 34% of Sales) and Retail, Life science & Logistics (contributes 24% of Sales) both registered a growth of 6%, Energy & Utilities, Communications and Services (contributes 21% of Sales) increased by 7% and Manufacturing (contributes 22% of Sales) by 4% on QoQ basis.

Margin Performance (Figure:1.3): Due to wage increments and slim forex gain, Infy's EBITDA margin declined by 60bps to 25.7% on QoQ basis. Company's BFSI segment margin decreased by 220 bps to 29%, manufacturing down by 320bps to 24.7% and Retail, Life science & Logistics down by 140bps to 29.8%. While Energy & Utilities, Communications and Services inched up its margin by 550bps to 30% on sequential basis. PAT growth almost unchanged (QoQ). Company's PAT margin dip by 130bps to 22.7%.

Guidance: Company's has increased its FY13 Sales guidance (inorganic) to \$7450mn from \$7343mn of earlier guidance in dollar term and maintained EPS guidance to \$2.77-2.96 from \$2.97 of earlier guidance.

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Figure: 1.1 (Source: Eastwind)

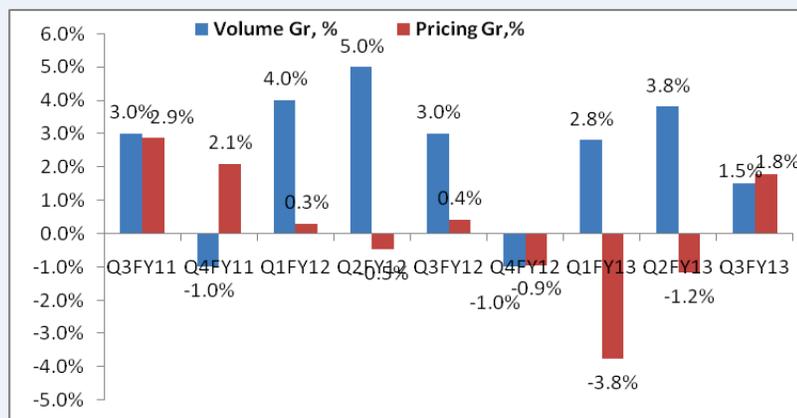


Figure: 1.2 (Source: Eastwind)

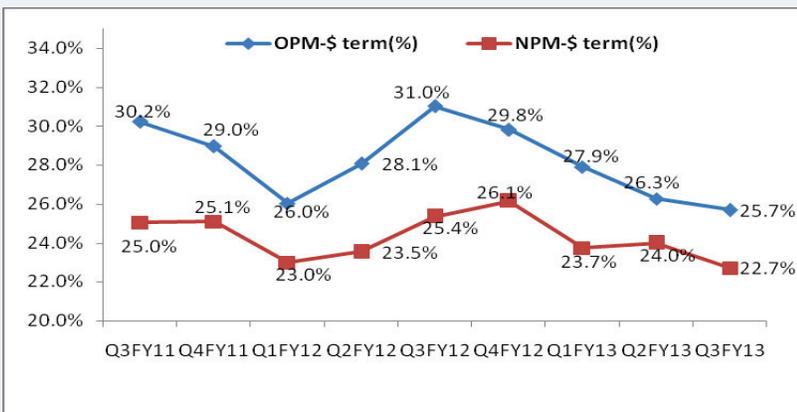


Figure: 1.3 (Source: Eastwind)

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Client Metrics (Figure:1.5): Company added 51 clients' v/s 39 clients (Q2FY13) during the quarter. Company added 1 client and increased to 12 in \$100mn category, Top clients contribution decreased to 3.6% from 4%, top 5 clients contribution decreased to 14.6% from 16% and top 10 clients contribution also decreased to 23.9% from 25.4% on (QoQ) basis.

Company's DSO decreased from 65 days to 61 days on LTM basis. During the third quarter, Infosys won 8 large outsourcing deals amounting to USD 731 million of total contract value.

Patent exposures: During the third quarter, Infosys applied for seven patent applications in India and the U.S. With this, it has 525 patent applications in India, the U.S. and other jurisdictions, and has been granted 71 patents by the United States Patent and Trademark Office and two patents by the Luxembourg patent office.

Headcounts Metrics: During the quarter, Company added 7,499 gross employees to 155629. company's attrition unchanged at 15.1% sequentially. Company's utilization rate increased to 70.1% from 69.6%(Q2FY13).

With expectations at all all time low, this marginal surprise in performance has lifted clouds of pessimism accumulated over previous 8 quarters of dissatisfaction. This makes a case for valuation gap with TCS to narrow, a substantial part of which has already happened with Friday's price action. We highlight that Infy looks best placed when it comes to a rise in discretionary spending in FY14, considering its high exposure to consulting, accentuated further by Lodestone acquisition. The concerns at this time remain how margins play out, FY14 guidance and continued weaknesses witnessed in core horizontals.

Company still lagging behind the 11-14 percent industry growth projected by NASSCOM. But the visibility of profitability and growth might be seen in near future on the back of strong brand value, virtualization of some geographies and new industries with maintaining high utilization rate, new client addition could be another lever for margin growth

Management is confident of acquisitions worth up to \$700 million (Rs 3,800cr) as part of its inorganic growth strategy. Company's operating cash flow continues to be strong, while it has roughly Rs15100cr cash (Cash/share at Rs 262, **Figure:1.6**) on its balance sheet as on Dec 2013. At a CMP of Rs 2713 it trades at 16.5x FY13E earnings. We maintain BUY and upgrade our target price from Rs 2600 to Rs2800. Large rerating will have to wait!

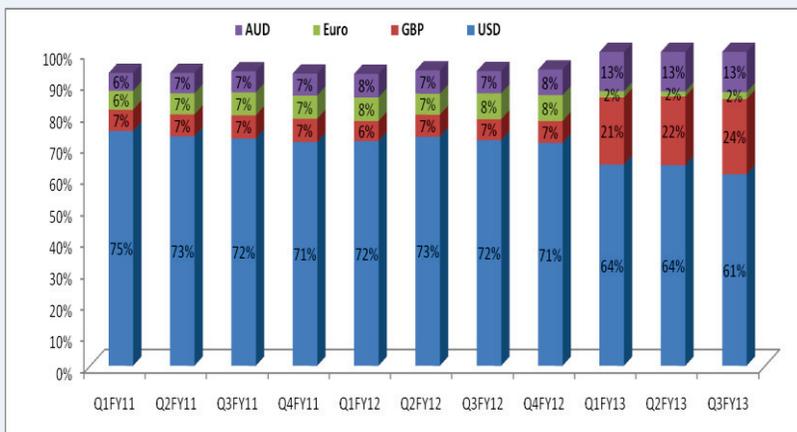


Figure: 1.4 (Source: Eastwind)

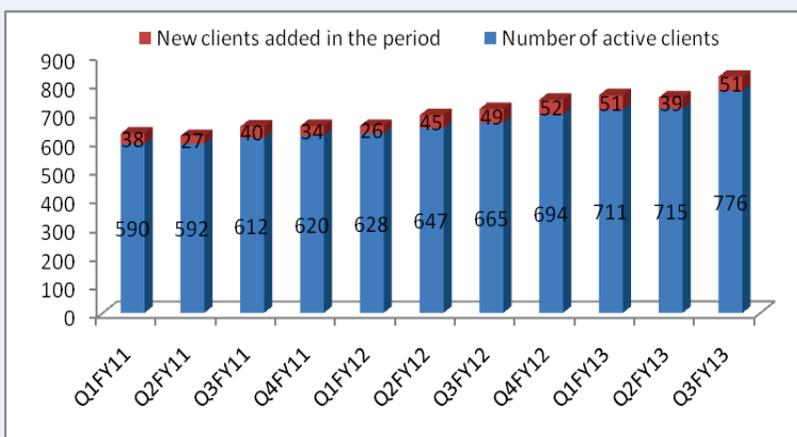


Figure: 1.5 (Source: Eastwind)

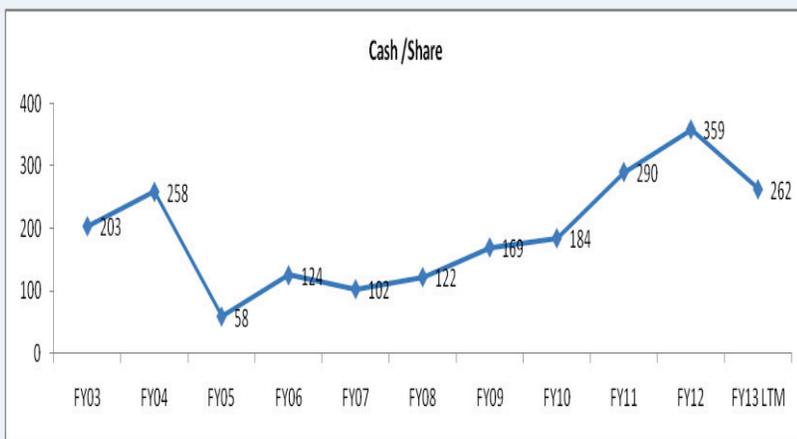


Figure: 1.6 (Source: Eastwind)