

**INFOSYS Ltd**

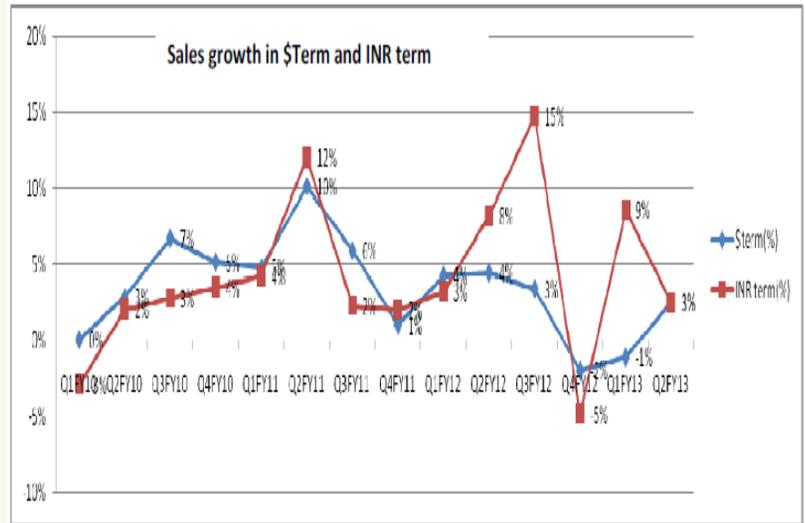
Infosys Ltd witnessed muted Q2 FY13 earnings and tepid earning guidance of FY13E than street expectations. Company reported 3% (QoQ) top line growth (Figure: 1.1) led by 1% BFSI growth (contributes 34% of sales), 3% manufacturing (contributes 22% of Sales), 4% Retail and Logistic (contributes 24% of Sales) and 4% Energy, Utilities and Communication (contributes 20% of Sales). On geographical front, revenue from US added 1% growth (contributes 64% of revenue) and Europe 5% (contributes 20% of Sales) on a sequential basis. The other disappointment on the numbers front was the margin performance. Company's EBITDA margin was down by 160 basis points, due to increase in costs by 5% (QoQ), PAT increased by 3% on QoQ basis.

On a dollar term, company posted 3% growth on top line and bottom line both. During the quarter volume growth (Figure: 1.2) increased to 3.8% from 2.8% of Q1FY13, while pricing growth down by 1.2% against 3.8% down in Q1FY13.

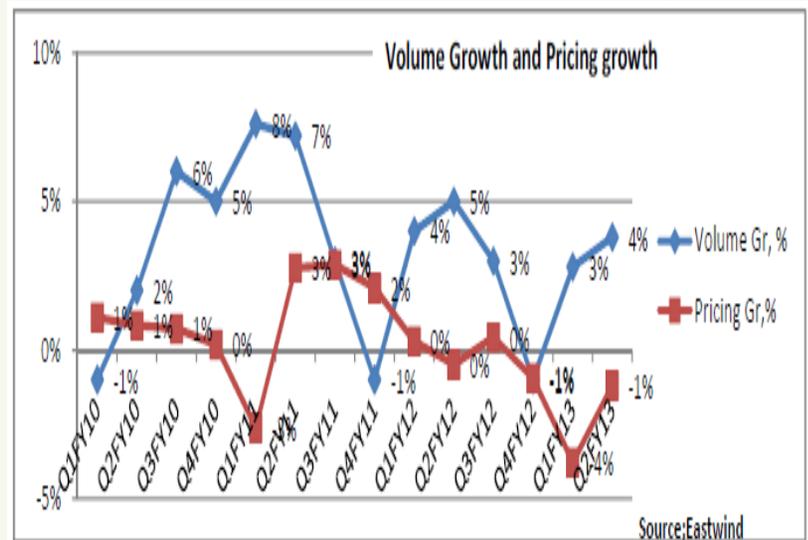
The client matrix has also moved in a negative manner, the number of clients greater than \$300mn has decreased as well as greater than \$100mn has fallen. Company added around 39 new clients against 51 clients added in the first quarter of FY13. Infosys and its subsidiaries made a net addition of 2,610 employees during the quarter taking the total headcount to 153761 employees as on September 30, 2012. On hierarchy front, Company's current CFO V Balakrishnan step down his position and will take other responsibility, and current VP Finance Rajiv Bansal will be new CFO.

Continued price cut, wage hike plan of 6% on offshore and 2-3% on onsite and macro headwinds including INR appreciation could lead to pain on the bottom-line. Infosys has reached a definitive agreement to acquire Zurich-based Lodestone Holding AG (a global management consultancy firm) for USD 350 million (Rs 1925cr). It is into high end consulting business, and mgmt has clarified that it will factor in the acquisition in Oct-Dec quarter.

Post Q2 FY13, Infosys cuts its guidance for EPS to US\$2.97 from US\$3.03 of earlier guidance, adjusting it for the currency exchange rate. It expects revenue growth of at least 5% to \$7.343 billion for FY13, against 6% of earlier guidance. 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 Rs20500cr cash (Cash per share at Rs 359, Figure: 1.3) on its balance sheet as on FY12. At a CMP of Rs 2396, it trades at 13.9x FY13E earnings. We maintain **BUY** with a reduced target price of Rs 2600. The triggers we believe are meaningful acquisitions as guided by the management in near future (especially as buybacks are not happening) and effects of restructuring kicking off late FY13/FY14.

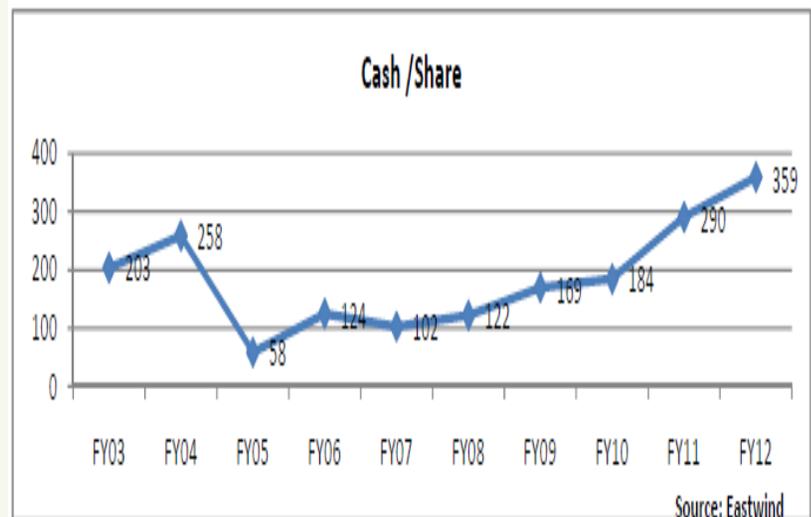


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