

## **Hike in Salaries, decline billing rates and higher tax provisioning resulted in lower EBITDA and Net margins**

Largely impacted by hike in salaries and lower billing rates, EBITDA margin for Q1FY11 fell by 610 bps (YoY) to 28.0%. However, impact of decline in EBITDA was neutralized by higher utilization of employees, which stood at 73.0% for current quarter. As STPI tax holiday for certain units expired, 80% of revenues came under taxable cap in Q1FY11 (70% in Q4FY10), and thus the effective tax rate stood at 25.4% for Q4FY11. Net profit for Q1FY11 declined by 2.6% (YoY) to Rs 1488.0 crore.

## **Attrition rate remains at cautious level**

Despite double digit growth in salaries attrition rate remained high at 15.8% in Q1FY10. With poaching of skilled employees going around, retaining of skilled employees remains one of key issue for Infosys. However, on the basis of better revenue visibility, the management expects attrition rate to come down in coming few quarters. Beside this, management has increased hiring target by 6000 to 36000 for FY11.

## **Valuation and Recommendation**

Upward revision in the revenue guidance hints towards a strong demand environment and also eases the concern with regard to Europe but the revision in the earnings guidance was below the Street's expectations. In terms of verticals, the company expects a strong demand growth from the BFSI, energy and retail verticals. At CMP of Rs 2758.9, the stock is trading at 19.3x its FY12 earnings estimates of Rs 143.2. On the basis of better long term revenue visibility and lower attrition rates, we recommend a buy stock at CMP.

# Result Update



Kyon ki bhaiya, sabse bada rupaiya.

(Rs. In Cr.)

Infosys Technologies Ltd.	Q1FY11	Q1FY10	% Chg.	Q1FY11	Q4FY10	% Chg.	FY201003	FY200903	% Chg.
Net Sales	6198.0	5472.0	13.3	6198.0	5944.0	4.3	22742.0	21693.0	4.8
Other operational Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Oper. Income(TOI)	6198.0	5472.0	13.3	6198.0	5944.0	4.3	22742.0	21693.0	4.8
Raw Materials Cons.-	266.0	37.0	618.9	266.0	-16.0	LP	-14.0	360.0	PL
% to TOI	4.3%	0.7%	-	4.3%	-0.3%	-	-0.1%	1.7%	-
Stock adj. (-)Inc / (+)Dec-	0.0	0.0	0.0	0.0		-	0.0		0.0
% to TOI	0.0%	0.0%	-	0.0%	%	-	0.0%	%	-
Net Raw Mat adj. for stock	266.0	37.0	618.9	266.0	-16.0	LP	-14.0	360.0	PL
% to TOI	4.3%	0.7%	-	4.3%	-0.3%	-	-0.1%	1.7%	-
Other expenses	815.0	689.0	18.3	815.0	773.0	5.4	2810.0	3172.0	-11.4
% to TOI	13.2%	12.6%	-	13.2%	13.0%	-	12.4%	14.6%	-
Contribution Net_Sales	5117.0	4746.0	7.8	5117.0	5187.0	-1.4	19946.0	18161.0	9.8
Personnel	3382.0	2878.0	17.5	3382.0	3200.0	5.7	12085.0	11405.0	6.0
% to TOI	54.6%	52.6%	-	54.6%	53.8%	-	53.1%	52.6%	-
Total expenditure	4463.0	3604.0	23.8	4463.0	3957.0	12.8	14881.0	14937.0	-0.4
Operating Profit	1735.0	1868.0	-7.1	1735.0	1987.0	-12.7	7861.0	6756.0	16.4
<i>% to TOI</i>	<i>28.0%</i>	<i>34.1%</i>	<i>-</i>	<i>28.0%</i>	<i>33.4%</i>	<i>-</i>	<i>34.6%</i>	<i>31.1%</i>	<i>-</i>
Non-Operating Income	259.0	269.0	-3.7	259.0	233.0	11.2	934.0	914.0	2.2
Interest	0.0	0.0	0.0	0.0		-	0.0		0.0
Exceptional Items	0.0	0.0	0.0	0.0	10.0	-100.0	9.0	-2.0	LP
Gross Profit	1994.0	2137.0	-6.7	1994.0	2230.0	-10.6	8804.0	7668.0	14.8
Depreciation	0.0	222.0	-100.0	0.0	220.0	-100.0	905.0	761.0	18.9
PBT before Extra-ord	1994.0	1915.0	4.1	1994.0	2010.0	-0.8	7899.0	6907.0	14.4
% to TOI	32.2%	35.0%	-	32.2%	33.8%	-	34.7%	31.8%	-
Extraordinary Items	0.0	0.0	0.0	0.0	48.0	-100.0	48.0		-
PBT	1994.0	1915.0	4.1	1994.0	2058.0	-3.1	7947.0	6907.0	15.1
Tax Rate	25.4%	20.3%	-	25.4%	21.4%	-	21.2%	13.3%	-
Prov. for Tax	506.0	388.0	30.4	506.0	441.0	14.7	1681.0	919.0	82.9
% to TOI	8.2%	7.1%	-	8.2%	7.4%	-	7.4%	4.2%	-
Profit after Tax	1488.0	1527.0	-2.6	1488.0	1617.0	-8.0	6266.0	5988.0	4.6
<i>% to TOI</i>	<i>24.0%</i>	<i>27.9%</i>	<i>-</i>	<i>24.0%</i>	<i>27.2%</i>	<i>-</i>	<i>27.6%</i>	<i>27.6%</i>	<i>-</i>
Minority Interest		0.0				-	0.0		0.0
PAT (adj. For MI)	1488.0	1527.0	-2.6	1488.0	1617.0	-8.0	6266.0	5988.0	4.6
Face Value	5.0	5.0	0.0	5.0	5.0		5.0	5.0	0.0
Equity Share capital	286.0	287.0	-0.4	286.0	286.0	0.0	286.0	286.0	0.0
EPS (Rs.)	26.0	26.6	-2.2	26.0	28.3	-8.0	109.6	104.7	4.6
CEPS (Rs.)	26.0	30.5	-14.6	26.0	32.1	-19.0	125.4	118.0	6.3

**Source: ACE Equity**

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