



Infosys: Q4FY11 result update – 15th April, 2011

CMP: Rs. 2,989

Disappointing Q4FY11 results, competition intensity to pressurize margin

Revenues witnessed rupee revenue growth of 2% on qoq basis to touch Rs.72.5bn and US\$ revenue growth of 1.1%. The reported revenue numbers were below market expectations of Rs.74.5bn. This was mainly on account of 1.4%qoq volume decline (v/s 3-4% qoq growth expectations). However, volume decline was mitigated by improvement in pricing ~2.1% blended Constant Currency (CC).

The company's margins were also under pressure. EBIT margins declined to touch 29% in Q4FY11 as against 30.2% in the previous quarter. The main reason for such decline was sharp reduction in utilization rate (including trainees) at 68.4% in Q4FY11 as compared to 72.6% in Q3FY11.

Profit after tax also disappointed the street. PAT registered a growth of 2.15% to touch Rs.18.18 bn as against street expectations of Rs. 18.56 bn. EPS was up 2.2% on qoq basis at Rs.38.1 in Q4FY11, on the back of higher other income.

Key highlights:

Reported attrition was marginally lower in Q4FY11 at 17%. Net addition of 3,041 employees was lower as compared to net addition of 5,311 in Q3FY11.

America witnessed a decline of 0.5%CC, whereas Europe witnessed a 2.4% CC qoq growth.

Client additions were slightly lower in Q3FY11 at 34 v/s 40 in the previous quarter.

Cash balance stood at US\$3.7 bn

We believe, margin pressure has been mainly on account of increasing competition leading to lower pricing power. Going ahead, increase in intensity of competition may force Infosys to win business at lower margin.

The current street expectations are too high on the EPS front, which we believe would be rerated on account of changing margin profile, post Q4FY11 results.

Q1FY12 guidance...

The management expects a US\$ revenue growth of 3.6%. In rupee terms, revenues are expected to witness a growth of ~0.8-1.8% on qoq basis to touch Rs. 73-73.8bn.

On the margin front, the company expects a decline of 600 bps, which implies possible hike in wage rates.

FY12 guidance...

The guidance for FY12 is below street expectations. It has given US\$ revenue guidance of 18-20% for FY12. In rupee terms the company is expecting a revenue growth of 15.4-17.3% to touch Rs. 317-323 bn in FY12. The company however, expects a overall decline of ~200 bps in EBIT margin for FY12. The management has forecasted an EPS of Rs.126.05-128.2 for FY12 which is below street estimates of Rs.150-152.

We recommend investors to accumulate the stock at every decline with a medium term horizon.

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