

Manoj Bahety, CFA

+ 91-22-6623 3362
manoj.bahety@edelcap.com

Sandeep Gupta

+ 91-22-4063 5474
sandeep.gupta@edelcap.com

Market Data

52-week range (INR): 437 / 209
Share in issue (mn): 978.6
M cap (INR bn/USD mn): 414 / 8,487
Avg. Daily vol. BSE ('000): 3,936.5

Share Holding Pattern (%)

Promoters*	:	76.2
MFs, FIs & Banks	:	7.9
FIIIs	:	10.0
Others	:	5.9

* Promoters pledged shares : 12.0
(% of share in issue)

Derivatives dampen operating benefits

- Tata Consultancy Services (TCS) had an outstanding derivative cover of INR 95.3 bn as at FY09 end (34.6% of operating revenues) and INR 200.8 bn for FY08 (88.8% of income from operations). High derivative covers availed during FY08 led to high MTM losses on forex derivatives in FY09 (average exchange rate during FY08 was at INR 40.3/USD, FY09 INR 45.9/USD).
- The company had earlier adopted AS 30 and incurred a total net forex loss of INR 14.9 bn during FY09. Of these losses, INR 7.8 bn was charged to the profit and loss (P&L) account and INR 7.1 bn to the balance sheet, as a part of hedging reserve to be ultimately adjusted in P&L for the period in which the transaction was closed. Net loss of INR 4.7 bn was recognised in the hedging reserve as at FY09 end and the same is expected to be adjusted in P&L for FY10.

Financial highlights

- During FY09, operating revenues grew 22.9%, from INR 226.2 bn in FY08 to INR 278.1 bn in FY09, primarily on account of impact of exchange rates.
- Operating profit margins improved marginally from 22.7% in FY08 to 23.7% in FY09; however, NP margins dipped from 22.2% in FY08 to 18.9% in FY09, primarily on account of derivative losses.
- Return on average equity (ROAE) for FY09 was at 36.4%, whereas return on net operating assets (RNOA) was at 42.5% (ROAE analyser analyses the difference).
- Annual revenue per employee dipped from INR 2.0 mn in FY08 to INR 1.9 mn in FY09, primarily on account of increase in headcount. However, operating profit per employee was maintained at INR 0.5 mn by securing higher proportion of offshore revenues.
- Increased focus on collection of dues helped TCS reduce its average debtor days from 78 in FY08 to 75 in FY09.
- Cash/bank and investments as at FY09 end stood at INR 43.1 bn, accounting for 25.9% of total assets and 27.6% of the net worth. Average yield on cash and investments increased from 3.2% in FY08 to 6.6% in FY09.
- During FY09, TCS revised the estimate of useful life of computer to four years, leading to a decrease in depreciation and increase in PBT by INR 1.8 bn (2.9%).
- During FY09, TCS acquired Citigroup Inc.'s (Citi) 96.2% in Citigroup Global Services for USD 504.5 mn. Further, Citi also signed a pact with TCS to provide services to Citi and its affiliates for an aggregate amount of USD 2.5 bn over a period of 9.5 years.

Key risks

- TCS generates a major portion of revenues from STP operations (tax exemption on STP operations expires in FY11). However, the company has a MAT credit entitlement of INR 7.8 bn as at FY09 end, which will offset incremental tax expenses in the mid term.
- Revenues are concentrated in the US and Europe geographies and in BFSI in terms of business segmentation. Both the BFSI sector and these geographies were hit by the recent economic slowdown. Revenue contribution from the US and Europe increased from 84.0% in FY08 to 85.6% in FY09; contribution from the BFSI segment dipped from 57.7% to 55.1% in the period.

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INR depreciation aids top line growth; margins stable

- During FY09, Infosys Technologies' (Infosys) revenues grew 30%, from INR 166.9 bn in FY08 to INR 216.9 bn, partly fueled by the INR depreciation which contributed 18.3% to revenue growth.
- Operating profit margin improved from 27.8% in FY08 to 29.7% in FY09; PAT margin, however, dipped slightly from 27.9% in FY08 to 27.6% in FY09, primarily on account of forex losses, which stood at INR 4.4 bn in FY09 against INR 0.1 bn in FY08.
- Losses on account of a few subsidiaries dampened margins; aggregated PAT margins for subsidiaries, at 7.4%, subdued the overall PAT margin. On a standalone basis, PAT margin stood at 28.7%.
- Employee expenses, as a percentage of operating revenues, decreased from 52.8% in FY08 to 52.2% in FY09 as revenue per employee improved from INR 1.8 mn in FY08 to INR 2.1 mn in FY09.
- During FY09, Infosys derived 97.6% of revenues from its existing clients; the number of clients contributing more than USD 100 mn, however, dropped from six in FY08 to four in FY09.
- Offshore revenue contribution improved from 49.1% in FY08 to 50.7% in FY09.

Financial highlights

- Return on average equity (ROAE) for FY09 stood at 34.9% despite a high return on net operating assets (RNOA) of 63.7% (ROAE analyser analyses the difference).
- Book value/share as at FY09 end stood at ~INR 319; however, cash and bank balance per share was at ~INR 170.
- Outstanding derivative contracts as at FY09 end were 12% of operating revenues (18.2% in FY08).
- In FY09, 82% revenues originated from STP operations. Out of the 15 STP operations, tax exemption was available for only nine, which kept the effective tax rate at 13.3%. Of these nine, five had tax exemption till FY09, three till FY10 and the balance till FY11.
- Infosys' MAT credit entitlement as at FY09 end was at INR 2.8 bn, which is likely to partly offset the incremental tax liability over the medium term.
- North America continued to be the highest revenue contributor, accounting for 63.3% of FY09 revenues (62% in FY08). Contribution from Europe decreased from 28.1% in FY08 to 26.3% in FY09. Segmental operating margins for Europe were at 33.5% vis-à-vis 32.0% for North America.
- Revenue share of financial services and telecom segments has declined 2% (each) during the year; contribution of the manufacturing segment has, however, increased from 14.7% in FY08 to 19.8% in FY09.

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Market Data

52-week range (INR): 1,854/1,040
Share in issue (mn): 573.1
M cap (INR bn/USD mn): 1,026/21,066
Avg. Daily vol. BSE ('000): 2,100.3

Share Holding Pattern (%)

Promoters*	:	16.5
MFs, FIs & Banks	:	8.3
FIIIs	:	35.7
Others	:	39.5

* Promoters pledged shares : Nil
(% of share in issue)

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