

Infosys Technologies Ltd. (ADR) (INFY)

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Company Overview:

Infosys Technologies Limited (headquartered in Bangalore, India) engages in the design and delivery of information technology (IT) enabled business solutions. It provides various services, including consulting, design, custom application development, software reengineering, maintenance and production support, systems integration, package evaluation and implementation, testing services, operations and business process consulting, engineering services, and infrastructure management services.

The company also offers software products to the banking industry. Infosys, through its subsidiary, Progeon, provides business process management services, such as offsite customer relationship management, finance and accounting, and administration and sales order processing. It serves clients in financial services, manufacturing, telecommunications, retail, utilities, logistics, and other industries in North America, Europe, and the Asia-Pacific region.

They have over 72,000 employees worldwide. Infosys was incorporated in 1981 and in a scant 26 years has grown into a \$2 billion dollar global IT Solutions Company, with a market capitalization of over \$21 billion.

Quote from their 10K “It took us 23 years to reach the revenue milestone of one billion dollars. The next billion dollars took us only 23 months to achieve.”

Over the last year Infosys achieved growth in revenues of 33.5% and 30.9% growth in earnings. They also added 144 clients in the last fiscal year with nine of their clients contributing over \$50 million each in annual revenue. The total client base is around 460. They derived 95.0% of their revenues from repeat business (i.e. a customer who also contributed to revenues during the prior fiscal year).

Infosys is also **debt free**.

Financial Highlights:

Q4 2007 net profit jumped 70.4% Q/Q, net profit rose to \$259 million in the January-March quarter compared with \$152 million in the same period a year ago.

Q4 2007 Revenues rose 46% to \$863 million, which translates into \$3.1 billion in sales for FY2007 (April to March).

Fiscal 2008 Outlook:

Infosys expects to surpass \$4 billion in sales for FY2008. Despite concerns of an economic slowdown in the US, which accounts for about 2/3 of sales, Infosys is forecasting about 28-30% sales growth and 25.7%-27.7% EPS growth. Management sees no let up in the favorable demand outlook.

Analyst Opinions:

- Wachovia: “We continue to believe investors need to be an owner of this market leading provider to the rapid growth, multi-year offshore based IT/BPO services market.” They also expect that Infosys will continue to grow revenue at around 30%.
- Prudential Equity Group: “We believe INFY deserves a premium valuation due to its strong demand for its services and solid control of its workforce.” Prudential is forecasting revenue growth at 25%-30%.
- Value line is also rather upbeat with this stock. They are forecasting revenue growth at 25%. “We think that the major segments of outsourcing in the coming years will be software development, engineering design, network management, and customer service.”

Competitors:

All of the competitors listed below are Indian competitors.

Satyam

Tata Consultancy Services

Wipro Technologies

Potential Risks:

Wage Inflation

Attrition- competitors stealing your good workers. Employee market.

Labor Pool-potential labor shortage in future.

Currency Fluctuations

Pricing

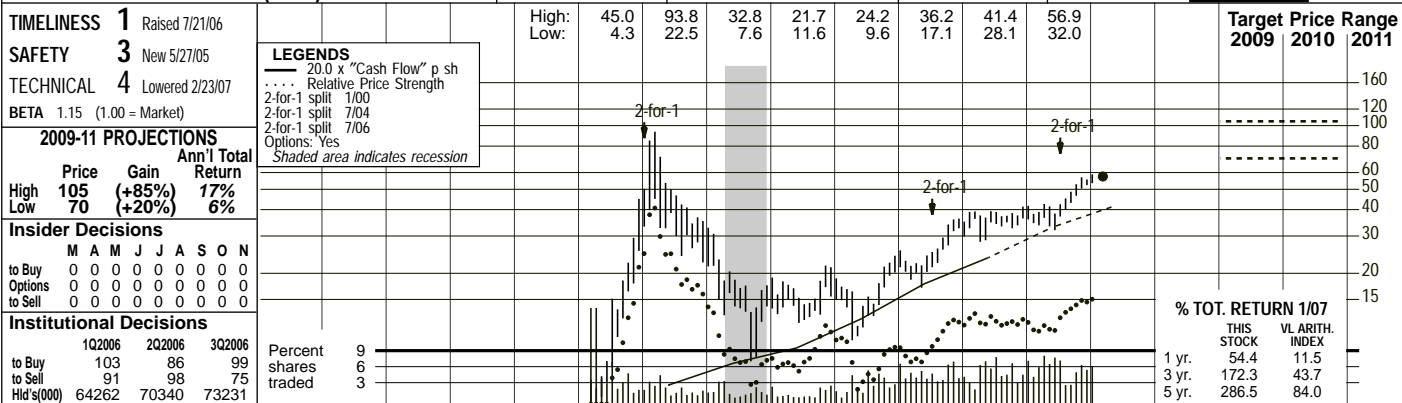
IT Budgets- dependent on IT Budgets of US and European companies.

Security Breaches

Judgments:

For EPS and Sales growth estimates, I used 25%. In looking at Infosys's own estimates as well as the analyst opinions, 25% seems to be the accepted minimum growth rate for the time being. I am not comfortable going higher than this number, just because it's a big

growth rate to begin with. I capped the high P/E at 30 and low P/E at 25. Again, the high P/E is low compared to historical P/E's, but those historical P/E's are high in my opinion and remind me of the tech crash a few years back and this gives me pause... I also used the forecast low price of \$24.80. This gives us an upside/downside ratio of 1.4:1. Not even close to our buy range. Could we get this stock into the buy range? Sure we could, but I stuck with the more conservative route, since this is an ADR (currency fluctuations), in the IT industry (outsource IT no less), and in a developing country (see risks above).



1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
--	--	--	--	--	--	--	--	--	--	.78	1.03	1.42	1.99	2.94	3.90	5.55	7.20	Revenues per sh ^A	11.45
--	--	--	--	--	--	--	--	--	--	.30	.37	.44	.61	.89	1.19	1.65	2.10	"Cash Flow" per sh	3.45
--	--	--	--	--	--	--	--	--	--	.25	.31	.37	.51	.76	1.00	1.45	1.85	Earnings per sh ^B	3.10
--	--	--	--	--	--	--	--	--	--	.02	.04	.07	.08	.37	.15	.32	.30	Div'ds Decl'd per sh ^D	.35
--	--	--	--	--	--	--	--	--	--	.18	.13	.08	.17	.34	.45	.50	.65	Cap'l Spending per sh	.85
--	--	--	--	--	--	--	--	--	--	.59	.84	1.18	1.79	2.32	3.33	4.60	6.40	Book Value per sh	14.15
--	--	--	--	--	--	--	--	--	--	529.27	529.49	529.94	533.13	541.14	551.11	558.00	558.00	Common Shs Outst'g ^C	560.00
--	--	--	--	--	--	--	--	--	--	NMF	47.9	42.8	33.9	37.7	36.0	<i>Bold figures are Value Line estimates</i>		Avg Ann'l P/E Ratio	28.0
--	--	--	--	--	--	--	--	--	--	NMF	2.45	2.34	1.93	1.99	1.92			Relative P/E Ratio	1.85
--	--	--	--	--	--	--	--	--	--	--	.3%	.4%	.5%	1.3%	.5%			Avg Ann'l Div'd Yield	.4%

CAPITAL STRUCTURE as of 12/31/06				2004	2005	12/31/06	2004	2005	2006	2007	Revenues (\$mill) ^A	Operating Margin
Total Debt None				--	--	--	413.9	545.1	753.8	1062.6	1592.0	2152.0
Leases, Uncapitalized: Annual rentals \$9.0 mill.				--	--	--	40.4%	39.8%	34.5%	32.6%	32.7%	32.4%
No Defined Benefit Pension Plan				--	--	--	24.5	33.6	39.4	52.3	64.0	99.0
Pfd Stock None				--	--	--	131.9	164.5	194.9	270.3	419.0	555.0
Common Stock 557,848,468 shs. (Each ADR represents one ordinary share.) (adjusted for 2-for-1 stock split paid 7/18/06) MARKET CAP: \$32.0 billion (Large Cap)				--	--	--	10.3%	14.5%	17.7%	15.8%	14.7%	11.1%
CURRENT POSITION				2004	2005	12/31/06	31.9%	30.2%	25.9%	25.4%	26.3%	25.8%
Cash Assets				688.0	1059.0	1087.0	176.1	270.4	444.8	719.9	885.0	1299.0
Receivables				303.0	361.0	502.0	--	--	10.0	21.6	21.6	--
Inventory (Avg Cst)				--	--	--	311.8	442.4	626.0	953.6	1253.0	1837.0
Other				69.0	88.0	138.0	42.3%	37.2%	30.6%	27.7%	33.4%	30.2%
Current Assets				1060.0	1508.0	1727.0	42.3%	37.2%	31.1%	28.3%	33.4%	30.2%
Accts Payable				1.0	3.0	4.0	39.3%	32.0%	25.7%	23.4%	15.7%	25.3%
Debt Due				--	--	--	7%	14%	17%	17%	53%	16%
Other				174.0	206.0	291.0						
Current Liab.				175.0	209.0	295.0						

BUSINESS: Infosys Technologies Ltd. is a global information technology services firm. Through its majority-owned subsidiaries: Progeon Ltd., Infosys Technologies (Australia) Pty. Ltd., Infosys Technologies (Shanghai) Co. Ltd., and Infosys Consulting, Inc., it provides solutions that leverage tech. for clients across the entire software life cycle: consulting, design, development, re-engineering, maintenance, systems integration, and package evaluation and implementation. Also provides software products to the banking industry, as well as client business process mgmt. services through Progeon. Has about 52,720 empl. Chrmn. & CEO: Nandan M. Nilekani. Addr.: Electronics City, Hosur Rd., Bangalore, Karnataka 561 229, India. Tel.: (510) 770-9393. Web: www.infosys.com.

Infosys continues to progress at a solid pace. In its fiscal third quarter, earnings per share jumped 46%, to \$0.38 driven by a 47% top-line advance (year ends March 31st). The increasing globalization of outsourcing services is greatly benefiting Infosys. Specifically, the company added 43 new customers during the December interim and raised its employee base by 5% to handle the greater business. In addition, Infosys maintains a renewal business rate of over 95%, which reflects the quality of the company's services. **The company's revenues should surpass \$3 billion by the end of this fiscal year.** Infosys is building its presence in the outsourcing market by pursuing high-quality prospects among the world's largest companies. Furthermore, it is diversifying its customer base by forging relationships with companies in the pharmaceutical, aerospace, retail, and equipment manufacturing sectors, among others. That said, the competitive environment is heating up, and the outsourcing business is expanding into other areas of Europe, Asia, and Latin America. For instance, large players such as IBM and EDS are increasing their global operations in the prospect of gaining a greater share of outsourcing profits. Therefore, we believe Infosys should continue shifting some operations overseas to be closer to clients and reduce costs. This is especially important as wages in India rise. Overall, we project a 28% bottom-line gain in fiscal 2007 as Infosys builds its customer base. **The company is well positioned for growth over the next 3 to 5 years.** We think that the major segments of outsourcing in the coming years will be software development, engineering design, network management, and customer service. Infosys has a solid cash position, no debt, and the ability to generate strong cash flow. As a result, it will likely be able to increase its investments in new technology and infrastructure to capitalize on the higher demand. **This stock is ranked 1 (Highest) for year-ahead performance.** What's more, it offers above-average appreciation potential over the 2009-2011 pull. Investors should note, though, the greater volatility often associated with foreign investments. *Randy Shrikishun February 23, 2007*

Fiscal Year Begins	QUARTERLY REVENUES (\$ mill.) ^A	Full Fiscal Year	Fiscal Year Begins	EARNINGS PER SHARE ^{A B}	Full Fiscal Year	Cal-endar	QUARTERLY DIVIDENDS PAID ^D	Full Year
2003	233.3 250.8 275.9 302.6	1062.6	2003	.11 .12 .13 .15	.51	2003	-- .04 -- .04	.08
2004	335.0 379.0 423.0 455.0	1592.0	2004	.16 .18 .20 .22	.76	2004	-- .32 -- .05	.37
2005	476.0 524.0 559.0 593.0	2152.0	2005	.22 .25 .26 .27	1.00	2005	-- .075 -- .07	.15
2006	660.0 746.0 821.0 863	3090	2006	.31 .36 .38 .40	1.45	2006	-- .21 -- .11	.32
2007	920 980 1040 1080	4020	2007	.42 .45 .48 .50	1.85	2007	-- -- -- --	--

(A) Fiscal year ends March 31st. (B) Diluted earnings. Next earnings report due mid-April. (C) In millions, adjusted for stock splits. (D) Dividends typically paid in the second and fourth quarters of the calendar year.

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Company's Financial Strength	A
Stock's Price Stability	30
Price Growth Persistence	55
Earnings Predictability	95



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Company INFOSYS TECHNOLOGIES LTD Date 05/04/07

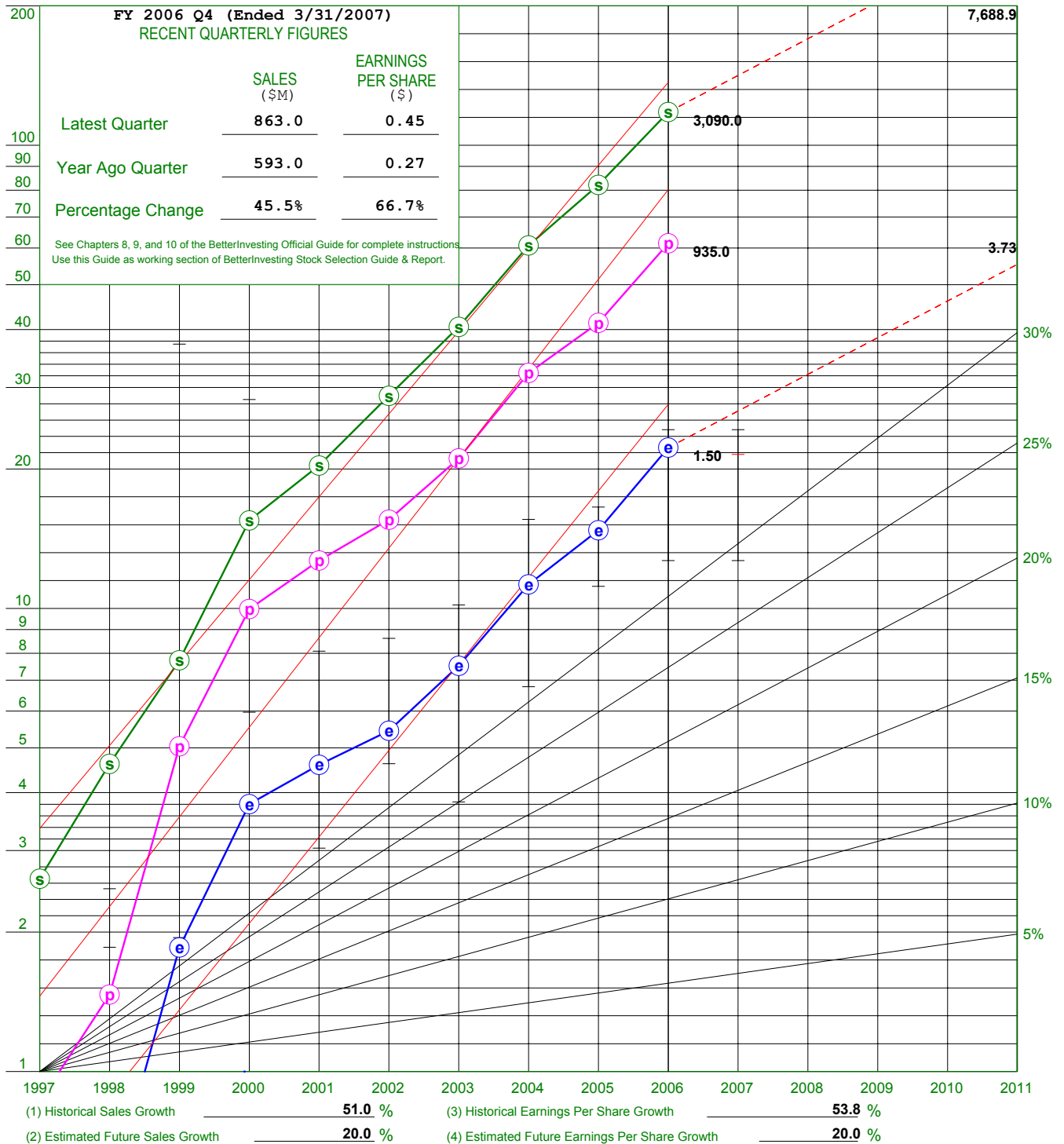
Prepared by C Rippling Data taken from NAIC Data

Where traded NASDAQ Major product/service IT Consulti

CAPITALIZATION --- Outstanding Amounts		Reference	
Preferred (\$M)	0.0	% Insiders	% Institution
Common (M Shares)	571.2	0.0	0.0
Debt (\$M)	0.0	% to Tot.Cap.	0.0
		% Potential Dil.	None

1 VISUAL ANALYSIS of Sales, Earnings and Price

INFY



2 EVALUATING MANAGEMENT

Company **INFOSYS TECHNOLOGIES LTD**

(INFY)

05/04/07

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	LAST 5 YEAR AVG.	TREND	
												UP	DOWN
A % Pre-tax Profit on Sales (Net Before Taxes + Sales)	19.2	18.5	37.9	37.4	36.2	31.4	30.2	30.8	29.3	30.3	30.4		EVEN
B % Earned on Equity (E/S + Book Value)	32.5	13.6	34.6	45.5	38.6	31.1	28.3	32.8	29.9		30.5		NMF

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

		PRESENT PRICE		54.180		HIGH THIS YEAR		61.250		LOW THIS YEAR		31.960	
Year		PRICE		C Earnings Per Share	D Price Earnings Ratio		F Dividend Per Share	G % Payout F ÷ C X 100	H % High Yield F ÷ B X 100				
		HIGH	LOW		HIGH A ÷ C	LOW B ÷ C							
1	2002	21.7	11.6	0.37	59.1	31.6	0.064	17.4	0.6				
2	2003	25.6	9.6	0.51	50.5	18.9	0.079	15.6	0.8				
3	2004	39.2	17.1	0.76	51.6	22.5	0.370	48.7	2.2				
4	2005	41.7	28.1	1.00	41.9	28.2	0.146	14.7	0.5				
5	2006	61.3	32.0	1.50	40.9	21.3	0.530	35.3	1.7				
6	TOTAL		98.4		244.0	122.5		131.7					
7	AVERAGE		19.7		48.8	24.5		26.3					
8	AVERAGE PRICE EARNINGS RATIO			36.6		9 CURRENT PRICE EARNINGS RATIO			36.4				

4 Proj. P/E [30.30] Based on Next 4 qtr. EPS [1.79] Current P/E Based on Last 4 qtr. EPS [1.49] PEG=152

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE -- NEXT 5 YEARS

Avg. High P/E ~~48.8~~ 30.0 X Estimate High Earnings/Share 3.73 = Forecast High Price \$ 111.9 (4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E ~~24.5~~ 21.0 X Estimated Low Earnings/Share 1.49 = \$ 31.3

(b) Avg. Low Price of Last 5 Years = 19.7 (3E7 as adj.)

(c) Recent Severe Market Low Price = 28.1 (3B7)

(d) Price Dividend Will Support Present Divid. = 0.530 = 24.5
Selected Estimate Low Price High Yield (H) 0.022

= \$ 31.3 (4B1)

C ZONING

111.9 (4A1) High Forecast Price Minus 31.3 (4B1) Low Forecast Price Equals 80.6 (C) Range. 1/3 of Range = 20.2 (4CB)

(4C2) Lower 1/3 = 31.3 (4B1) to 51.5 (Buy) Note: Ranges changed to 25%/50%/25%

(4C3) Middle 1/3 = 51.5 to 91.7 (Maybe)

(4C4) Upper 1/3 = 91.7 to 111.9 (4A1) (Sell)

Present Market Price of 54.180 is in the Hold (4C5) Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price (4A1) 111.9 Minus Present Price 54.180 = 57.7
Present Price 54.180 Minus Low Price (4B1) 31.3 = 22.9 = 2.5 To 1 (4D)

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price (4A1) 111.9 = (2.065) X 100 = (206.5) - 100 = 106.5 % Appreciation (4E)
Present Market Price 54.180

Relative Value: 99.5% Proj. Relative Value: 82.8%

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend \$ 0.530
Present Price of Stock \$ 54.180 = 0.010 X 100 = 1.0 (5A) Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS

Avg. Earnings Per Share Next 5 Years 2.59 X Avg. % Payout (3G7) 26.3 = 68.1 = 1.3 % (5B)
Present Price \$ 54.180

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

5 Year Appreciation Potential (4E) <u>106.5</u>			P.A.R.	Tot. Ret.
	<u>21.3</u> %		Average Yield <u>1.0%</u>	<u>0.9%</u>
Average Yield (5B) <u>1.3</u> %			Annual Appreciation <u>11.9%</u>	<u>15.6%</u>
Average Total Annual Return Over the Next 5 Years (5C) <u>22.6</u> %			% Compd Ann Rate of Ret <u>12.9%</u>	<u>16.5%</u>