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10:37 AM | 23 Apr

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Planning to buy Infosys? Restructuring benefits likely to trickle in next 3 years

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Kshitij Anand, ECONOMICTIMES.COM Apr 15, 2014, 03.28PM IST

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NEW DELHI: Infosys on Tuesday reported fourth-quarter numbers which were largely in line with estimates.

The IT firm saw slight improvement in operating margin and announced higher dividend for the final quarter of FY14.

In the past several quarters, the company has been finding it difficult to grow revenue consistently as rising competition to bag large transformational projects has intensified amid restructuring. The IT major lost one client in the \$200 million bucket and two in the \$100 million bucket.



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According to analysts, Infosys has lot of restructuring to do and they are trying to keep the expectations low and outperform them as and when the next quarters pans out. But the stock should head higher once this whole exercise is over and investors can look at the stock from a three years perspective.

Infosys management also clarified that the company is going through a transformational phase and the benefits will start coming in probably in the next three years.

"We have gone through a transformation over the last three-four quarters. We are very focussed on three or four areas. One of them is sales effectiveness. We are recruiting 200 people globally from very prominent universities, the best in the world, to enhance our sales capabilities," said SD Shibulal, CEO and Managing Director.

"We have articulated very clearly that benefits of this will accrue over a period of three years and we are literally into 12 months of those transformations. I would expect their benefits to come in a period of three years," he added.

Dr. Vikas V Gupta (Head- Research & Product Development) at ArthVeda advises investors to buy the stock at current levels or lower if they have a 3 year+ holding period.

"It is a good buy since rupee has appreciated temporarily and once rupee finds its natural level the profitability will improve over longer period. Also the new initiatives will take a couple of years to show effect," he added.

According to analysts, the company is expected to show a few more quarters of slower growth relative to its peers as reflected by its FY15 guidance of 7-9 per cent growth in dollar denominated revenue. This is also lower than the average estimate of 13-15 per cent growth by the industry agency Nasscom.

But, on the positive, results are much in line with market expectations as the company was able to expand its order pipeline by adding new clients in this quarter. Net profits improved on annual basis by 25 per cent to Rs 2992 crore.

Now the real question in front of investors is - will the management be able to turnaround Infosys in the long term or is it better to book profits?

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Well, analysts feel that the stock is certainly good long term bet after recent correction and given the fact it is still trading at 40%-50% discount to TCS makes it an attractive bet; however, near-term challenges exist for the company.

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Vikas Khemani, CEO, Edelweiss Securities is of the view that as a house view we think that the management will turn around things for Infosys from hereon but investors should wait for better entry points from a technical point of view but if you have to take a structural call, we are positive on the company.

"We think that given the fact that now from here until next quarter there would not be any major triggers as far as company specific thing is concerned and given the fact that there might be some sort of appreciation in the rupee there could be better entry points in Infosys," he added.

The management opined that the global economic environment has improved and looks exciting for IT services industry. The company has still got headroom to increase its utilization level by 300 bps to be comparable with peers and this, in turn, will assist in increasing operating margins further.

"We see business opportunities both in the Europe, US and other parts including Australia. The volume pick up quarterly will give us the momentum toward revenues as we see today with respect to the pipeline we have, with respect to the decision making cycles and our resources including the utilisation level this is what it is at this point in time," said Infosys Management- BG Srinivas, President.

"If you look at the utilisation in the last couple of quarters, yes it has definitely improved, today it stands at around 76% and we can continue to improvise on that and we can take it to 80% as the volume picks up for sure," he added.

The company signed 4 large deals during the quarter with TCW worth US\$700mn+. Infosys' EBIT margin grew by 45 bps QoQ to 25.5 per cent (better than expectations), led by operational efficiency with inch up in utilization level to 74.4 per cent and sequential decline in employee costs.

The management opined that the global economic environment has improved and a company like Infosys is system driven with a healthy management bandwidth and hence the impact will not be long lasting.

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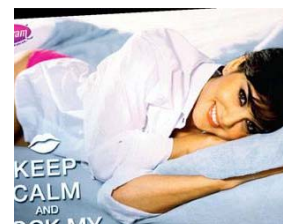
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Abhijit Nath (dd)
16 Apr, 2014 01:23 AM

Nice Article

Rajesh Narang (MUMBAI)
15 Apr, 2014 09:11 PM

GOOD FOR ALL

B R V SHANBHAG (bangalore)
15 Apr, 2014 08:45 PM

Better than expected result. The company will do better here on for sure. It is time to look for an opportune time to enter.

Rajesh Narang (mumbai) replies to B R V SHANBHAG
15 Apr, 2014 09:11 PM

AGREE IT WILL BEAT TCS IN 2 YRS

Suraj (180003)
15 Apr, 2014 08:10 PM

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