

## RETAIL EQUITY RESEARCH

## Infosys Ltd

IT

BSE CODE: 500209

NSE CODE: INFY

Bloomberg CODE: INFO:IN

SENSEX: 29,319

**HOLD**

Rating as per Largecap

12months investment period

CMP Rs922 TARGET Rs986 RETURN 7% 19<sup>th</sup> April, 2017**FY18 guidance disappoints...**

Infosys is India's second largest IT company. It provides services across various verticals such as Financial Services (FS), Manufacturing (MFG), Energy & Utilities, Communication & Services (ECS), Retail, Consumer packaged goods & Logistics (RCL) and Life Sciences & Healthcare (HILIFE).

- Infosys reported lower than expected numbers in Q4FY17 with consolidated revenue declining by 0.9% QoQ in INR terms. However, dollar revenue grew by 0.7% QoQ.
- EBIT margin fell 65 bps QoQ to 24.4% weighed down by lower revenue, cross currency headwinds and higher software & consultancy cost.
- Management has provided a conservative revenue guidance of 6.5-8.5% in constant currency terms for FY18 and has also lowered its EBIT margin guidance to 23%-25%.
- Given continued healthy momentum in deal wins we expect revenue/PAT to grow at ~8%/6% CAGR over FY17-19E.
- We reduce our target multiple on the stock to 14x (14.5x earlier). Recommend HOLD with a revised TP of Rs986 (earlier Rs1,083).

**Revenue missed estimates**

Infosys reported a soft performance in Q4FY17 with consolidated net profit declining by ~3% QoQ due to weak operating performance. Revenue also witnessed a decline of 0.9% QoQ reflecting slow pace of execution. However, dollar revenue grew marginally by 0.7% QoQ. The company added 71 new clients during the quarter, taking the total number of customers to 1,162. Importantly, the company has added 1 new client in the 100mn+ bracket and the attrition rate continues to decline to 13.5% as against 14.9% in Q3FY17. Utilization (excluding trainee) largely remained flat at 82% (up 10bps QoQ).

**Weak operating performance**

Despite the company's focus on operational efficiencies led by higher utilisation and tight control on costs, operating margin declined 65 basis points to 24.4% in Q4FY17 led by lower revenue coupled with cross currency headwinds and higher software & consultancy cost. Notably, the management has scaled down its EBIT margin guidance to 23-25% for FY18 from 24-26% that it has traditionally maintained over the last few years. The management lowered the guidance on account of visa concerns, higher investments in offshore and cross currency impact. We factor EBIT margin of 24%/23.9% for FY18E/19E.

**Conservative guidance**

Adverse macro-economic environment coupled with cut back in IT spends by vendors and concerns over H1-B visa regime (under the new Trump administration) are hindering the growth prospects of the software services sector. The management has given a conservative revenue guidance of 6.5-8.5% in constant currency terms for FY18.

Besides, in a major move to bring cheer to the shareholders, the board has set aside funds worth Rs13,000cr, or USD2bn to be distributed to shareholders through dividend or share buyback in FY18. Further, the company expects to utilise 70% of its annual free cash flow as against the earlier practise of utilising 50% of the full year post-tax profits to pay dividend.

**Outlook & Valuation**

Given Infosys' robust deal pipeline, cost optimisation benefit from automation and improvement in utilisation leading to productivity gains, we expect revenue/PAT to grow at a CAGR of ~8%/6% over FY17-19E. However, a stronger rupee against US dollar, adverse macro-economic environment and H1-B visa headwind remain key concerns going ahead. We slightly toned down our revenue/PAT estimates for FY18E & FY19E by 2.7%/5.2% & 3.5%/6.1% to factor in lower growth estimates. Hence, we have slightly tapered down our target multiple from 14.5x (earlier) to 14x. Recommend HOLD with a revised TP of Rs986 (earlier Rs1,083).

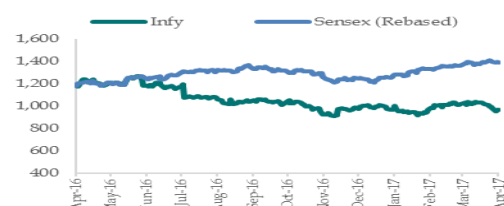
**Company Data**

Market Cap (Rs cr)	211,870
Enterprise Value (Rs cr)	178,450
Outstanding Shares (cr)	228.8
Free Float	87%
Dividend Yield	2.6%
52 week high	Rs1,278
52 week low	Rs900
6m average volume (cr)	0.4
Beta	0.5
Face value	Rs5

Shareholding %	Q1FY17	Q2FY17	Q3FY17
Promoters	12.7	12.7	12.7
FII's	40.5	39.6	39.0
MFs/Insti	34.6	35.2	36.2
Public	9.6	9.9	9.9
Others	2.6	2.6	2.2
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	(3%)	(11%)	(26%)
Absolute Sensex	8%	5%	14%
Relative Return*	(11%)	(16%)	(39%)

\*over or under performance to benchmark index



Consolidated (Rs.cr)	FY17	FY18E	FY19E
Sales	68,484	73,713	79,720
Growth (%)	9.7	7.6	8.1
EBITDA	18,604	19,722	21,409
Margin(%)	8.7	6.0	8.6
PAT Adj	14,353	14,965	16,110
Growth (%)	4.9	4.3	7.6
Adj.EPS	62.7	65.4	70.4
Growth (%)	4.9	4.3	7.6
P/E	14.7	14.1	13.1
P/B	3.1	2.8	2.5
EV/EBITDA	9.3	8.8	7.8
RoE (%)	22.6	20.6	20.2
D/E	-	-	-

## Quarterly Financials (Consolidated)

### Profit & Loss Account

(Rs cr)	Q4FY17	Q4FY16	YoY Growth %	Q3FY17	QoQ Growth %
Sales	17,120	16,550	3.4	17,273	(0.9)
EBITDA	4,658	4,639	0.4	4,767	(2.3)
Margin (%)	27.2	28.0	(82)	27.6	(39)
Depreciation	446	419	6.4	433	3.0
EBIT	4,212	4,220	(0.2)	4,334	(2.8)
Interest	-	-	-	-	-
Other Income	746	772	(3.4)	820	(9.0)
Exceptional Items	-	-	-	-	-
PBT	4,958	4,992	(0.7)	5,154	(3.8)
Tax	1,330	1,394	(4.6)	1,446	(8.0)
PAT	3,628	3,598	0.8	3,708	(2.2)
Minority Interest/ PL from associates	(25)	(1)	2,400.0	-	-
Reported PAT	3,603	3,597	0.2	3,708	(2.8)
Adjustment	-	-	-	-	-
Adj PAT	3,603	3,597	0.2	3,708	(2.8)
No. of shares (cr)	228.8	228.8	-	228.8	-
EPS (Rs)	15.7	15.7	0.2	16.2	(2.8)

## Segmental Revenue

(Rs cr)	Q4FY17	Q4FY16	YoY Growth %	Q3FY17	QoQ Growth %
Financial Services (FS)	4,655	4,522	2.9	4,663	(0.2)
Manufacturing (MFG)	1,918	1,748	9.7	1,893	1.3
Energy, utilities, commu. (ECS)	3,963	3,635	9.0	3,885	2.0
Retail, consumer goods (RCL)	2,710	2,727	(0.6)	2,821	(3.9)
Life sciences, Healthcare (HILIFE)	2,148	2,083	3.1	2,196	(2.2)
Hi-Tech	1,211	1,327	(8.7)	1,250	(3.1)
All other segment	515	508	1.4	565	(8.8)
<b>Total</b>	<b>17,120</b>	<b>16,550</b>	<b>3.4</b>	<b>17,273</b>	<b>(0.9)</b>
Less: Intersegment revenue	-	-	-	-	-
<b>Net Revenue from operations</b>	<b>17,120</b>	<b>16,550</b>	<b>3.4</b>	<b>17,273</b>	<b>(0.9)</b>

Source: Company, Geojit Research

## Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Revenue	75,727	82,603	73,713	79,720	(2.7)	(3.5)
EBITDA	20,481	22,423	19,722	21,409	(3.7)	(4.5)
Margins (%)	27.0	27.1	26.8	26.9	(20 bps)	(20 bps)
PAT	15,779	17,164	14,965	16,110	(5.2)	(6.1)
EPS	68.7	74.7	65.4	70.4	(4.8)	(5.8)

## Consolidated Financials

### Profit & Loss Account

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
<b>Sales</b>	<b>53,319</b>	<b>62,441</b>	<b>68,484</b>	<b>73,713</b>	<b>79,720</b>
% change	6.4%	17.1%	9.7%	7.6%	8.1%
<b>EBITDA</b>	<b>14,871</b>	<b>7,120</b>	<b>18,604</b>	<b>19,722</b>	<b>21,409</b>
% change	11.1%	15.1%	8.7%	6.0%	8.6%
Depreciation	1,017	1,266	1,703	2,032	2,334
<b>EBIT</b>	<b>13,854</b>	<b>15,854</b>	<b>16,901</b>	<b>17,689</b>	<b>19,075</b>
Interest	-	-	-	-	-
Other Income	3,430	3,128	3,080	3,107	3,311
<b>PBT</b>	<b>17,284</b>	<b>18,982</b>	<b>19,981</b>	<b>20,797</b>	<b>22,387</b>
% change	17.4%	9.8%	5.3%	4.1%	7.6%
Tax	4,911	5,301	5,598	5,827	6,272
Tax Rate (%)	28.4%	27.9%	28.0%	28.0%	28.0%
PAT	12,373	13,681	14,383	14,970	16,115
MI/P&L from associates	(1)	(3)	(30)	(5)	(5)
<b>Reported PAT</b>	<b>12,372</b>	<b>13,678</b>	<b>14,353</b>	<b>14,965</b>	<b>16,110</b>
Adj*	-	-	-	-	-
<b>Adj PAT</b>	<b>12,372</b>	<b>13,678</b>	<b>14,353</b>	<b>14,965</b>	<b>16,110</b>
% change	16.1%	10.6%	4.9%	4.3%	7.6%
No. of shares (cr)	114.4	228.8	228.8	228.8	228.8
<b>Adj EPS (Rs)</b>	<b>54.1</b>	<b>59.8</b>	<b>62.7</b>	<b>65.4</b>	<b>70.4</b>
% change	16.1%	10.6%	4.9%	4.3%	7.6%
DPS (Rs)	44.7	24.3	25.8	28.3	31.2

### Balance Sheet

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Cash	30,367	32,697	22,625	25,946	29,815
Accounts Receivable	9,713	11,330	12,322	13,263	14,344
Inventories	-	-	-	-	-
Other Cur. Assets	6,290	7,651	8,788	9,497	10,323
Investments	2,270	1,892	16,352	18,352	20,352
Gross Fixed Assets	14,221	16,194	19,791	23,156	26,156
Net Fixed Assets	7,751	8,704	10,598	11,931	12,597
CWIP	776	960	1,365	1,000	1,000
Intangible Assets	3,595	4,476	3,652	3,652	3,652
Def. Tax (Net)	536	533	333	333	333
Other Assets	4,991	6,898	7,113	7,113	7,113
<b>Total Assets</b>	<b>66,289</b>	<b>75,141</b>	<b>83,148</b>	<b>91,087</b>	<b>99,529</b>
Current Liabilities	15,503	17,189	14,013	14,763	15,650
Provisions	-	-	-	-	-
Debt Funds	-	-	-	-	-
Other Liabilities	50	126	153	153	153
Equity Capital	572	1,144	1,144	1,144	1,144
Reserves & Surplus	50,164	56,682	67,838	75,026	82,581
Shareholder's Fund	50,736	57,826	68,982	76,170	83,725
Minority Interest	-	-	-	-	-
<b>Total Liabilities</b>	<b>66,289</b>	<b>75,141</b>	<b>83,148</b>	<b>91,087</b>	<b>99,529</b>
<b>BVPS (Rs)</b>	<b>221.7</b>	<b>252.7</b>	<b>301.5</b>	<b>332.9</b>	<b>365.9</b>

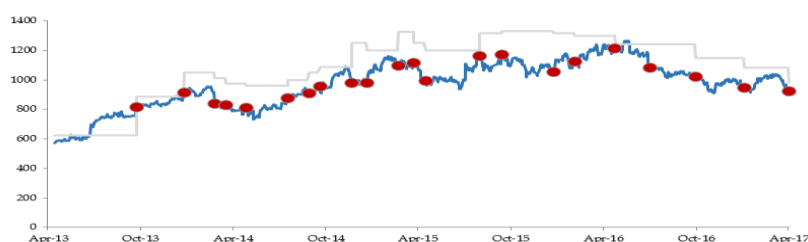
### Cash flow

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
<b>Pre-tax profit</b>	<b>17,283</b>	<b>18,979</b>	<b>14,353</b>	<b>20,792</b>	<b>22,382</b>
Depreciation	1,017	1,266	1,703	2,032	2,334
Changes in W.C	(842)	(2,146)	(2,156)	(900)	(1,020)
Others	(2,354)	(2,371)	3,284	(3,107)	(3,311)
Tax paid	(6,751)	(5,865)	(5,653)	(5,827)	(6,272)
<b>C.F.O</b>	<b>8,353</b>	<b>9,863</b>	<b>11,531</b>	<b>12,990</b>	<b>14,112</b>
Capital exp.	(2,255)	(2,723)	(2,760)	(3,000)	(3,000)
Change in inv.	2,003	370	(390)	(2,000)	(2,000)
Other invest.CF	1,251	1,633	(11,392)	3,107	3,311
<b>C.F - investing</b>	<b>999</b>	<b>(720)</b>	<b>(14,542)</b>	<b>(1,893)</b>	<b>(1,689)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(4,935)	(6,813)	(6,939)	(7,777)	(8,555)
Other finance.CF	-	-	-	-	-
<b>C.F - Financing</b>	<b>(4,935)</b>	<b>(6,813)</b>	<b>(6,939)</b>	<b>(7,777)</b>	<b>(8,555)</b>
Chg. in cash	4,417	2,330	(9,950)	3,321	3,869
Closing cash	30,367	32,697	22,625	25,946	29,815

### Ratios

Y.E March	FY15	FY16	FY17	FY18E	FY19E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	27.9	27.4	27.2	26.8	26.9
EBIT margin (%)	26.0	25.4	24.7	24.0	23.9
Net profit mgn.(%)	23.2	21.9	21.0	20.3	20.2
ROE (%)	26.0	25.2	22.6	20.6	20.2
ROCE (%)	36.3	35.0	31.5	28.7	28.0
<b>W.C &amp; Liquidity</b>					
Receivables (days)	66.5	66.2	65.7	65.7	65.7
Inventory (days)	0.0	0.0	0.0	0.0	0.0
Payables (days)	1.3	3.1	2.7	2.7	2.7
Current ratio (x)	3.0	3.0	3.8	4.1	4.4
Quick ratio (x)	3.0	3.0	3.8	4.1	4.4
<b>Turnover &amp;Levg.</b>					
Gross asset T.O (x)	4.1	4.1	3.8	3.4	3.2
Total asset T.O (x)	0.9	0.9	0.9	0.8	0.8
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
<b>Valuation ratios</b>					
EV/Sales (x)	3.3	2.9	2.5	2.3	2.1
EV/EBITDA (x)	12.0	10.4	9.3	8.8	7.8
P/E (x)	17.1	15.4	14.7	14.1	13.1
P/BV (x)	4.2	3.6	3.1	2.8	2.5

## Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
14 May 2014	BUY	963
5 August 2014	BUY	1000
15 September 2014	BUY	1050
7 October 2014	BUY	1088
9 December 2014	BUY	1250
7 January 2015	BUY	1200
10 March 2015	BUY	1325
10 April 2015	BUY	1250
30 April 2015	BUY	1200
18 August 2015	BUY	1320
1 October 2015	BUY	1330
11 January 2016	BUY	1320
23 February 2016	BUY	1300
11 May 2016	HOLD	1305
18 July 2016	BUY	1242
18 October 2016	BUY	1151
23 January 2017	BUY	1083
19 April 2017	HOLD	986

## Investment Rating Criteria

### Large Cap Stocks;

Buy	-	Upside is 10% or more.
Hold	-	Upside or downside is less than 10%.
Reduce	-	Downside is 10% or more.

### Mid Cap and Small Cap;

Buy	-	Upside is 15% or more.
Accumulate*	-	Upside between 10% - 15%.
Hold	-	Absolute returns between 0% - 10%.
Reduce/Sell	-	Absolute returns less than 0%.
To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.		

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

\* For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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