

Infosys Ltd.



Infosys Ltd.

Revenue & EBIT guidance indicate a cautious outlook

CMP INR 977	Target INR 1,158	Potential Upside 19%	Market Cap (INR Mn) 2242507	Recommendation Buy	Sector IT
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Result highlights

- Revenue in dollar terms stood at \$2,651 Mn, up 3.2% qoq and 6% yoy. Dollar revenue was above our estimate of \$2,642 Mn, which was due to 1.8 qoq improvement in realizations and 1.7% volumes growth qoq.
- By Geography:** India outperformed with a 15.7% qoq growth, followed by ROW at 7.4% qoq growth and Europe at 4.6% qoq growth
- By Industry:** Telecom led the pack with a 8.4% qoq growth, followed by Energy & Utilities which grew 7.3% qoq. Growth in the BFSI and Manufacturing segment was soft at 2.6% 2.3% respectively.
- By Services:** Testing services led the growth pack with a 6.6% qoq growth, followed by Product Engineering Services at 5.8% qoq growth and Application Development at 3.9% qoq growth.

MARKET DATA

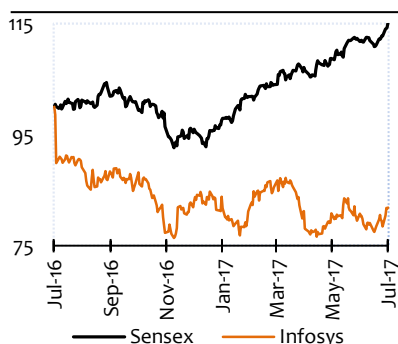
Shares outs (Mn)	2297
EquityCap (INR Mn)	11485
Mkt Cap (INR Mn)	2242507
52 Wk H/L (INR)	1195/900
Volume Avg (3m K)	3638.2
Face Value (INR)	5
Bloomberg Code	INFO IN

KEY FINANCIALS

Particulars (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	5,33,190	6,24,410	6,84,850	7,30,433	8,15,345
EBITDA	1,38,320	1,56,190	1,69,020	1,85,182	2,06,153
PAT	1,23,300	1,34,909	1,43,775	1,58,478	1,76,411
EPS	53.9	59.0	62.9	69.3	77.2
OPM	25.9%	25.0%	24.7%	25.4%	25.3%
NPM	23.1%	21.6%	21.0%	21.7%	21.6%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Dollar revenue guidance increased and margins maintained – a huge positive

Infosys stated it's FY18E dollar revenue growth guidance from 6.1-8.1% to 7.1-9.1%. The company maintained it's EBIT margin guidance in the range of 23-25% which a positive sign. We believe management improved the guidance on the back of visibility of stable realizations and in Software & Services space; New Services (8.3% of revenues) and Software (1.6% of revenues) are expected to be key growth drivers. Additionally, management expects BFSI spending to increase from H2FY18E which should serve as a trigger.

Management banking heavily on potential of Automation, Digital, New Services & Software

New Services and Software (cumulatively 10% of total revenues) are expected to be high growth areas with relatively higher margins compared to traditional services. We expect Infosys to continue delivering on innovation through its Zero Distance program and Utilization through its Zero Bench program. Adoption of Nia platform (internally and externally) and performance of Skava, Edgeverve and Panaya was exceptional in Q1 FY18. Nia crossed over 160+ engagements in Q1 FY18.

Key Concall Highlights: (i) Expect BFSI segment to outperform in H2FY18E as banks held back on spending due to recent interest rate hike (ii) Performance of Skava, Nia, Edgeverve and Panaya continues to remain exceptional (iii) Margin decline largely due to 80 bps wage impact and INR appreciation which was offset by cross-currency tailwind and improvement in realizations (iv) Headcount witnessed a drop mainly due to highest utilization levels in the last 15 years and higher productivity therein

Valuation and view

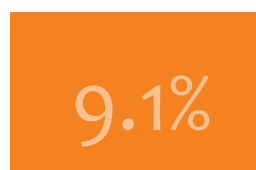
We believe that the company's deployment of automation amongst other disruptive technologies, both internally and externally, should lead to profitability outpacing revenue growth. We have "BUY" rating on the stock and as we assign multiple of 15x to its FY19E EPS of INR. 77 to arrive at a price target of INR 1,158.

MARKET INFO

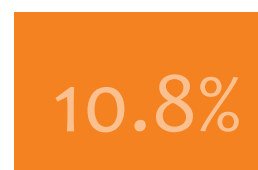
SENSEX	32037
NIFTY	9892

SHARE HOLDING PATTERN (%)

Particulars	Mar 17	Dec 16	Sep16
Promoters	12.75	12.75	12.75
FIIIs	38.31	39.02	39.56
DIIIs	20.31	18.86	18.01
Others	28.63	29.38	29.69
Total	100	100	100



Revenue CAGR between FY 17 and FY 19E



PAT CAGR between FY 17 and FY 19E

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Q4FY17 Result Snapshot

Exhibit 1 Quarterly Income Statement

INR Mn	Q1 FY18	Q4 FY17	Q-o-Q change %	Q1 FY17	Y-o-Y change %	Q1 FY18 estimates	Deviation %
Net Sales (US\$ Mn)	2,651	2,569	3.2%	2,501	6.0%	2,642	0.4%
Net Sales	1,70,780	1,71,200	(0.2%)	1,67,820	1.8%	1,74,340	(2.0%)
Less:							
Employees Remuneration & Benefits	1,09,000	1,07,700	1.2%	1,06,810	2.1%	1,12,533	(3.1%)
Administrative & Other Expenses	20,670	21,380	(3.3%)	20,540	0.6%	20,921	(1.2%)
Total Operating Expenditure	1,29,670	1,29,080	0.5%	1,27,350	1.8%	1,33,454	(2.8%)
Operating Profit	41,110	42,120	(2.4%)	40,470	1.6%	40,886	0.5%
Less: Depreciation	4,500	4,460	0.9%	4,000	12.5%	4,010	
Add: Other income	7,430	7,460	(0.4%)	7,530	(1.3%)	7,571	(1.9%)
Profit Before Tax	48,515	49,580	(2.1%)	48,000	1.1%	48,432	0.2%
Adjusted Profits	48,540	49,580	(2.1%)	48,000	1.1%	48,457	
Less: Total Tax	13,710	13,300	3.1%	13,620	0.7%	13,568	
PAT	34,805	36,280	(4.1%)	34,380	1.2%	34,864	(0.2%)
Adjusted PAT	34,830	36,280	(4.0%)	34,380	1.3%	34,889	(0.2%)
Reported Diluted EPS (Rs.)	15.2	15.9	(4.1%)	15.0	1.2%	15.2	
Adjusted Diluted EPS (Rs.)	15.2	15.9	(4.0%)	15	1.3%	15.3	(0.2%)
No of Shared Diluted (mn)	2,286	2,286		2,286		2,286	
Margin Analysis %			Change in bps		Change in bps		Deviation in bps
Operating margin	24.1%	24.6%	(53)	24.1%	(4)	23.5%	62
EBIDTA Margin	26.7%	27.2%	(50)	26.5%	21	25.8%	95
NPM	20.4%	21.2%	(81)	20.5%	(11)	20.0%	38
Adjusted NPM	20.4%	21.2%	(80)	20.5%	(9)	20.0%	38
Effective Tax Rate %	28.3%	26.8%	143	28.4%	(12)	28.0%	24
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	63.8%	62.9%	92	63.6%	18	64.5%	(72)
SG&A/Net sales	12.1%	12.5%	(39)	12.2%	(14)	12.0%	10

Source: Company, KRChoksey Research

- The Tax rate for the quarter stood 28.3% in Q1FY18
- The company reported over INR 35,980 Mn in Free Cash Flows and INR 2,31,170 Mn in Cash & Cash Equivalents
- Client additions stood at 59 in Q1 FY18 with major additions in the \$30 Mn+ category
- Attrition stood at 21%, an increase of 400 bps mainly due to seasonality as employees plan to pursue higher studies. Utilization was recorded at 84% and stood the highest in the last 15 years.

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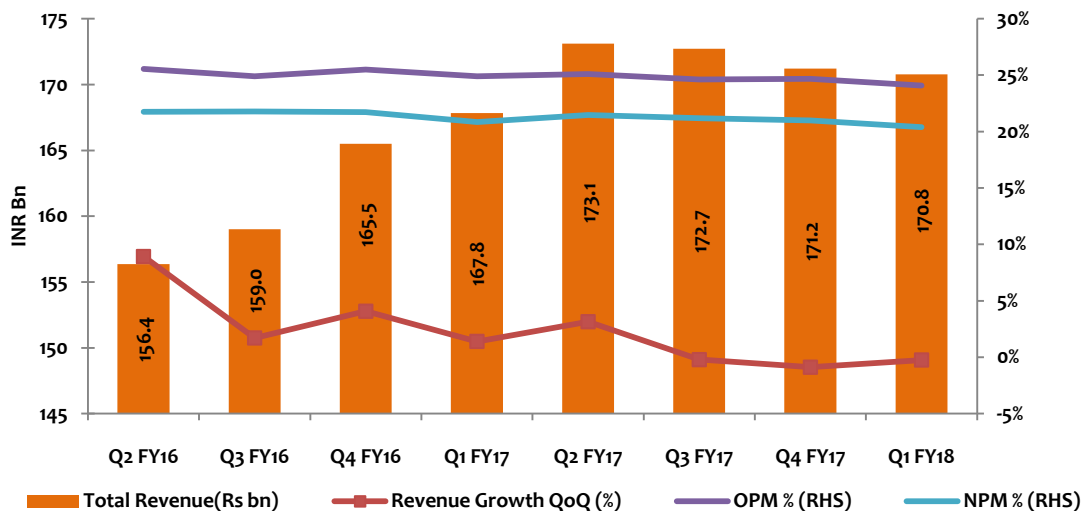
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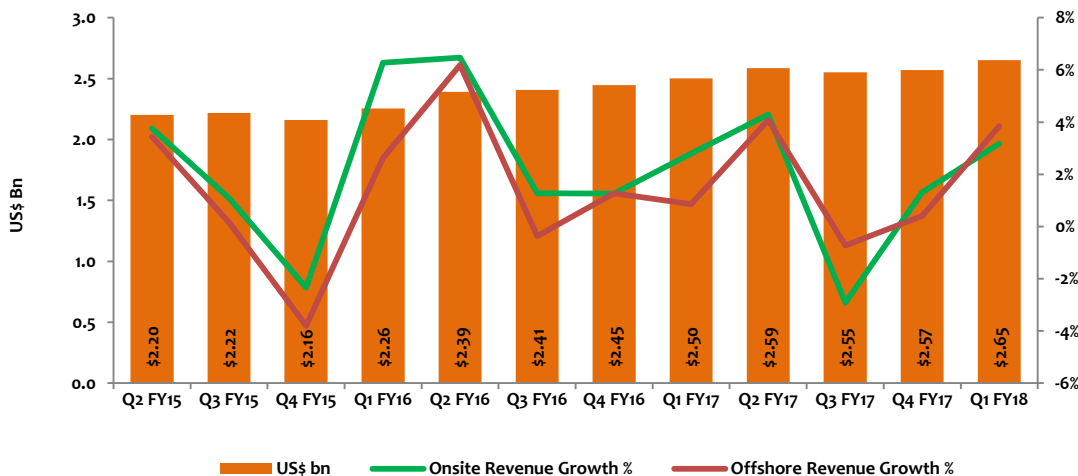
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Exhibit 2 - Revenues and Margin Movement (INR. Bn)


Source: Company, KRChoksey Research

Revenue in Rupee terms was down by 0.2% qoq at INR 170.8 Bn, and below our estimates of INR 174.3 Bn. Rupee revenue growth was subdued mainly due to appreciation of INR against USD. Operating Margin was reported at 24.1%, which was 62 bps above our expectation of 23.5%. Management stated that it expects EBIT margins to be in the range of 23-25% in FY18E on account of Visa issues and implicit protective measures in the US. Management stated FY18E growth guidance to 6.5-8.5% in cc terms and increased dollar revenue guidance to 7.1-9.1%.

Exhibit 3 - US\$ Revenue and Delivery Analysis (\$ Mn)


Source: Company, KRChoksey Research

Dollar revenues were recorded at \$2,651 Mn in Q1 FY18, up 3.2% qoq and up 6% yoy. Growth was largely driven by 1.8% qoq growth and realizations and 1.7% qoq volumes growth. Going ahead, management commentary and industry outlook suggest that performance of BFSI vertical is expected to improve in H2 FY18E as client spend improves. Additionally, growth from Digital Services (evident from strong growth in Digital Enablement and Enterprise Digital Transformation) and Automation offerings should drive revenue growth.

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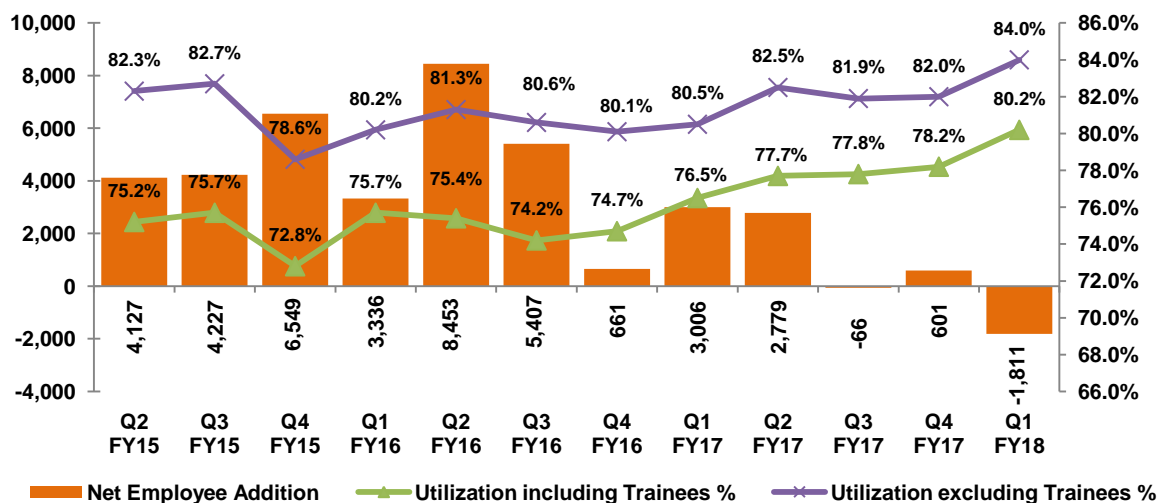
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Exhibit 4 - Employee Addition and Utilization Trend


Source: Company, KRChoksey Research

This quarter recorded a net employee reduction of -1,811, taking the total headcount to 198,553. We believe that Infosys is reaping the benefits of implementing the artificial intelligence platform – Nia - internally, which is evident from the declining trend of net employee addition since Q2 FY16. Utilization was recorded at a strong 84% and displayed consistency above the 80% mark. Robust utilization rates coupled with reduced costs due to automation will translate into strong margin performance going ahead.

Exhibit 5 - US\$ Revenue and Segment Revenue Growth Analysis (\$. Mn)

Client Profile	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18
\$5 Million+	248	258	261	268	268	277	277	275	282	279
\$10 Million+	161	169	171	177	180	186	186	195	189	190
\$30 Million	83	85	89	88	87	89	89	90	91	97
\$50 Million+	49	50	51	52	52	54	54	54	56	56
\$80 Million+	28	31	28	31	31	30	30	32	31	31
\$100 Million+	14	14	13	14	17	18	18	18	19	18
\$200 Million+	6	6	6	6	6	6	6	6	6	6
\$300 Million+	1	1	1	1	1	1	1	1	1	1

Source: Company, KRChoksey Research

Infosys added 59 clients in Q4 FY17 with a notable increase in \$30 Mn category.

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Exhibit 6 – Q1 FY18: Geography QoQ Growth (%)

Geography	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18
North America	5%	6%	-1%	1%	2%	3%	-1%	1.2%	1.2%
Europe	1%	8%	2%	3%	1%	1%	-3%	0.3%	4.6%
India	-8%	12%	20%	9%	-8%	30%	-1%	-4.9%	15.7%
Rest of the world	9%	-0.1%	1%	3%	7%	6%	-3%	0.7%	7.4%

Source: Company, KRChoksey Research

India led the growth pack with a 15.7% qoq growth followed by ROW at 7.4% and Europe at 4.6%. Growth remained sluggish in N. America.

Exhibit 7 – Q1 FY18: Vertical QoQ Growth (%)

Verticals	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18
Insurance	-2%	-1%	6%	-7%	6%	5%	6%	0.7%	4.9%
BFS	4%	6%	2%	1%	2%	4%	-2%	1.4%	2.1%
Manufacturing	5%	5%	-4%	1%	3%	2%	-1%	0.3%	2.3%
Retail	4%	5%	-1%	4%	6%	-1%	-3%	-2.7%	3.9%
Telecom	6%	0%	2%	9%	12%	3%	-4%	9.6%	8.4%
Energy & Utilities	-2%	19%	9%	4%	-8%	6%	3%	0.7%	7.3%
Transportation	-2%	34%	1%	-4%	8%	3%	4%	0.7%	-2.0%
Life Sciences	17%	9%	-1%	2%	-10%	2%	2%	-3.7%	3.2%
Others	3%	6%	2%	0%	1%	14%	-3%	-0.8%	-1.6%

Source: Company, KRChoksey Research

Telecom vertical was the outperformer in Q1 FY18 with a growth of 8.4% qoq, followed by Energy & Utilities at 7.3%. Insurance outperformed with a growth of 4.9% qoq. We expect BFS growth to bounce back in H2FY18E.

Exhibit 8 – Q1 FY18: Service Lines QoQ Growth (%)

Services	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18
Application Dev.	2.3%	6.0%	1.3%	-1.3%	7.5%	12.1%	-2%	-0.6%	3.9%
App Maintenance	5.6%	4.4%	-1.9%	4.8%	1.2%	-4.0%	-7%	-0.5%	2.6%
BPO	-1.4%	3.9%	0.6%	3.7%	0.2%	3.4%	-1%	4.8%	1.2%
Consulting	4.8%	6.0%	3.7%	-0.2%	-1.1%	3.4%	-1%	1.3%	3.2%
IMS	7.1%	11.1%	-13.3%	8.4%	6.1%	4.7%	1%	-0.5%	2.0%
Product Engineering	4.5%	0.0%	3.7%	1.6%	5.3%	9.3%	4%	3.3%	5.8%
Testing Services	4.5%	7.2%	2.9%	-0.6%	3.4%	4.6%	-3%	-0.4%	6.6%
Others	12.1%	-6.0%	-22.6%	-5.2%	-1.4%	11.1%	2%	7.4%	0.0%
Product revenues	-1.7%	25.9%	32.4%	5.7%	8.1%	-4.1%	8.3%	0.8%	3.3%

Source: Company, KRChoksey Research

Testing services and Product Engineering Services outperformed in Q1 FY18 and grew at 6.6% and 5.8% respectively. Application Development followed at 3.9% qoq growth.

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Exhibit 9 – Q1 FY18: Profit & Loss Statement

INR Mn	FY15	FY16	FY17	FY18E	FY19E
Net Sales	5,33,190	6,24,410	6,84,850	7,30,433	8,15,345
Sales Growth%	6.4%	17.1%	9.7%	6.7%	11.6%
Total Revenue	5,33,190	6,24,410	6,84,850	7,30,433	8,15,345
Less:					
Employees Cost	3,28,830	3,90,990	4,32,530	4,56,843	5,14,612
SG&A	66,040	77,230	83,300	88,408	94,580
Total Operating Expenditure	3,94,870	4,68,220	5,15,830	5,45,251	6,09,192
EBITDA	1,49,010	1,70,780	1,86,050	2,02,554	2,24,906
EBITDA Growth%	9.3%	14.6%	8.9%	8.9%	11.0%
Less: Depreciation	10,690	14,590	17,030	17,372	18,753
Operating Profit	1,38,320	1,56,190	1,69,020	1,85,182	2,06,153
Operating Profit Growth%	12.8%	12.9%	8.2%	9.6%	11.3%
Non-operating Income	34,270	31,239	30,735	34,815	38,862
Profit Before Tax	1,72,590	1,87,429	1,99,755	2,19,997	2,45,015
Tax	49,290	52,520	55,980	61,519	68,604
Net Profit	1,23,300	1,34,909	1,43,775	1,58,478	1,76,411
Adjusted Profit	1,23,300	1,34,909	1,43,775	1,58,478	1,76,411
Reported Diluted EPS INR	53.9	59.0	62.9	69.3	77.2
Diluted EPS Growth%	13.5%	9.4%	6.6%	10.2%	11.3%
Adjusted EPS	53.9	59.0	62.9	69.3	77.2
Adjusted EPS Growth%	13.5%	9.4%	6.6%	10.2%	11.3%

Source: Company, KRChoksey Research

Exhibit 10 – Q1 FY18: Balance Sheet

INR Mn	FY15	FY16	FY17	FY18E	FY19E
Liabilities					
Equity Capital	5,720	11,440	11,440	11,440	11,440
Reserves & Surplus	5,41,910	5,66,820	6,78,380	7,61,227	8,53,449
Equity	5,47,630	5,78,260	6,89,820	7,72,667	8,64,889
Net Worth	5,47,630	5,78,260	6,89,820	7,72,667	8,64,889
Net Deferred tax liability/(Asset)	2,060	1,260	3,600	3,600	3,600
Total Loans	0	0	0	0	0
Capital Employed	5,49,690	5,79,520	6,93,420	7,76,267	8,68,489
Assets					
Gross Block	1,41,070	1,60,900	1,83,320	1,98,320	2,13,320
Less: Depreciation	64,220	74,530	52,942	70,314	89,067
Net Block	76,850	86,370	1,30,378	1,28,006	1,24,253
Capital WIP & Intangibles	51,690	55,030	57,930	55,237	56,510
Investments	14,380	18,170	64,820	64,820	64,820
Others-Assets	48,640	74,310	65,650	30,760	34,302
Current Assets					
Sundry Debtors	97,130	1,13,300	1,23,220	1,30,077	1,45,198
Cash and Bank Balance	3,03,670	3,02,630	1,79,208	4,11,799	4,92,999
Loans and Advances	60,530	73,520	1,05,900	86,191	96,211
Total Current Assets	4,71,960	4,91,550	5,14,772	6,46,328	7,54,792
Less: Current Liabilities & Provisions					
Sundry Creditors	1,400	3,860	3,670	2,988	3,338
Provisions	4,780	18,530	4,050	4,922	5,488
Other Current Liabilities	1,07,650	1,23,520	1,32,410	1,40,974	1,57,362
Total Current Liabilities& Provisions	1,13,830	1,45,910	1,40,130	1,48,883	1,66,188
Capital Applied	5,49,690	5,79,520	6,93,420	7,76,267	8,68,489

Source: Company, KRChoksey Research

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Exhibit 11 - Q1 FY18: Ratio Analysis

INR Mn	FY15	FY16	FY17	FY18E	FY19E
EBITDA Margin(%)	25.9%	25.0%	24.7%	25.4%	25.3%
Tax/PBT(%)	28.6%	28.0%	28.0%	28.0%	28.0%
Net Profit Margin(%)	23.1%	21.6%	21.0%	21.7%	21.6%
RoE(%)	22.8%	22.7%	21.5%	20.6%	20.5%
RoCE(%)	22.7%	22.6%	21.4%	20.5%	20.4%
Current Ratio(x)	4.1x	3.4x	3.7x	4.3x	4.5x
Dividend Payout(%)	48.1%	47.9%	47.7%	47.7%	47.7%
Book Value Per Share(Rs.)	239.6	253.0	301.8	338.0	378.4
Financial Leverage Ratios					
Debt/Equity(x)	0.0x	0.0x	0.0x	0.0x	0.0x
Growth Indicators%					
Growth in Gross Block(%)	21.8%	14.1%	13.9%	8.2%	7.6%
Sales Growth(%)	6.4%	17.1%	9.7%	6.7%	11.6%
EBITDA Growth(%)	12.8%	12.9%	8.2%	9.6%	11.3%
Net Profit Growth(%)	13.5%	9.4%	6.6%	10.2%	11.3%
Diluted EPS Growth(%)	13.5%	9.4%	6.6%	10.2%	11.3%
Turnover Ratios					
Debtors (Days of net sales)	66	66	66	65	65

Source: Company, KRChoksey Research

Exhibit 12 – Q1 FY18: Free Cash Flow Analysis

INR Mn	FY15	FY16	FY17	FY18E	FY19E
EBITA	1,38,320	1,56,190	1,69,020	1,85,182	2,06,153
Less: Adjusted Taxes	39,503	43,766	47,367	51,784	57,723
NOPLAT	98,817	1,12,424	1,21,653	1,33,398	1,48,430
Plus: Depreciation	10,690	14,590	17,030	17,372	18,753
Less: Increase in Working Capital	-6,883	10,184	1,10,439	-95,502	11,419
Operating Cash flow	1,16,390	1,16,829	28,244	2,46,272	1,55,764
Less: Net Capex	23,070	19,310	65,088	12,307	16,274
Less: Increase in Net Other Assets	9,140	6,660	32,194	-48,265	3,780
Total FCF	84,180	90,859	-69,038	2,82,230	1,35,710

Source: Company, KRChoksey Research

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Infosys Ltd.

Infosys Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
14-July-17	972	1,158	BUY	Buy	More than 15%
13-Apr-17	931	1,060	ACCUMULATE	Accumulate	5% – 15%
13-Jan-17	971	1,074	ACCUMULATE	Hold	0 – 5%
18-Oct-16	1,022	1,123	ACCUMULATE	Reduce	-5% – 0
				Sell	Less than – 5%

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