

INFOSYS

Minor strategy tweaks; CEO appointment critical

India Equity Research | IT

Infosys' Q2FY18 revenue, at USD2,728mn (up 2.9% in USD, 2.2% in CC), belied Street's 3.5% estimate. However, operating margin, at 24.2%, yet again beat Street's 23.6% forecast. The company cut FY18 CC revenue growth guidance to 5.5-6.5% (from 6.5-8.5%) on weaker H1, but maintained margin guidance at 23-25%. Commentary on key issues: 1) CEO search is on track; 2) no merit in allegations of wrongdoing in acquisition of Panaya & severance payment to former CFO; and 3) design, consulting and technology services portfolio will continue to determine strategic direction. We believe, leadership vacuum is the key challenge for revenue growth and appointment of CEO is crucial for the stock's rerating. Maintain 'HOLD' with TP of INR1,010.

Operational efficiencies spur strong margin

Infosys reported 2.9% QoQ revenue growth driven by robust spurt in insurance (6.2%), healthcare & life sciences (6.0%), energy & utilities (8.8%), transport & logistics (8.3%) and communications (2.9%). However, growth was muted in BFS (2.5%), manufacturing (2.0%) and retail & CPG (0.0%). New services and software revenue jumped 16.5% and 2.9% QoQ and contributed 9.4% and 1.6% to revenue, respectively. Operating margin improved 10bps QoQ to 24.2% as wage hike impact (80bps) was offset by increase in utilisation (30bps), pricing improvement (30bps) and better onsite-offshore mix (20bps). The company has cut USD revenue growth guidance by 60-160bps to 6.5-7.5% on account of weakness in H1.

Old issues buried; CEO search on track

Infosys gave clean chit to earlier board members regarding allegations of wrongdoing in Panaya acquisition and severance payment to former CFO. It has decided not to make the investigation report public, a-la earlier board. It also highlighted that CEO search is on track. On the strategy front, Infosys will focus on integrated software and services approach leveraging new edge technologies to drive customer engagement.

Outlook and valuations: CEO selection key; maintain 'HOLD'

We attribute the guidance cut and revenue growth disappointment to CEO churn. We reiterate that Infosys has highest margin levers, but appointment of CEO is key for revenue growth and the stock's rerating. The stock trades at 12.8x FY19E EPS. We maintain 'HOLD/SP' with TP of INR1,010 (14x FY19E EPS).

Financials

(INR mn)

Year to March	Q2FY18	Q1FY18	% Chg	Q2FY17	% Chg	FY17	FY18E	FY19E
Net revenues	175,670	170,780	2.9	173,100	1.5	684,850	707,071	784,556
EBITDA	47,020	45,610	3.1	47,305	(0.6)	186,025	191,682	213,907
Adjusted Profit	37,260	34,830	7.0	36,060	3.3	143,530	145,134	156,952
Diluted EPS (INR)	16.3	15.2	7.0	15.8	3.3	62.8	65.1	72.2
Diluted P/E (x)						14.8	14.2	12.8
EV/EBITDA (x)						9.3	9.2	7.8
EV/Revenues (x)						2.5	2.5	2.1

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA (R: INFY.BO, B: INFO IN)

CMP	: INR 926
Target Price	: INR 1,010
52-week range (INR)	: 1,045 / 860
Share in issue (mn)	: 2,297.0
M cap (INR bn/USD mn)	: 2,128 / 32,707
Avg. Daily Vol.BSE/NSE('000)	: 4,975.9

SHARE HOLDING PATTERN (%)

	Current	Q1FY18	Q4FY17
Promoters *	12.7	12.7	12.7
MF's, FI's & BK's	20.2	20.2	20.3
FII's	37.5	37.5	38.3
Others	29.5	29.5	28.6
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Technology Index
1 month	3.1	2.4	3.1
3 months	(6.5)	2.4	(0.5)
12 months	(9.8)	17.2	1.2

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Only minor tweaks in strategy; awaiting new CEO

Mr. Nandan Nilekani outlined the much awaited 'strategy refresh' after reviewing all programmes across the organisation, accelerating execution plans and prioritising key areas of investments across services and software portfolios. The company will continue to be driven by portfolio of market relevant design, consulting and technology services, enabled by software. Management highlighted that customers are facing challenges from new-edge digital businesses and are leveraging technology to fend them off. This is creating huge demand for new-edge technologies while optimising investments in traditional services leveraging automation. Infosys will approach this problem with an integrated software and services approach. In the process, it will: 1) invest in creating learning platform for reskilling employees in new technologies; 2) embrace automation aggressively & apply it across the organisation; and 3) will invest in building digital capabilities by hiring talent or via acquisition.

We believe, this strategy is broadly similar to the one adopted by Dr. Vishal Sikka. The company may continue with the current strategy until it finds the next CEO as alignment of next CEO's vision with the company's strategy will be crucial. We believe, Dr. Sikka has filled crucial gaps in artificial intelligence, machine learning, design thinking etc., by acquisition of Skava, Panaya etc. The challenge for Infosys will be to build the vertical solution suite for relevant industries using these platforms. A few more tweaks to the strategy are likely once the new CEO comes on-board.

Leadership vacuum to hurt growth

In our view, the weaker-than-anticipated revenue growth and subsequent guidance cut indicate that Infosys will face revenue growth issues due to absence of CEO. We believe, appointment of CEO is crucial for revenue growth revival and will be key for the stock's rating. We maintain '**HOLD/SP**' with target price of INR1,010.

Key highlights

- Reported revenue of USD2,738mn, up 2.9% QoQ (2.2% in CC terms), versus Street's estimate of 3.5% QoQ growth.
- EBITDA and EBIT margin rose 10bps each to 26.8% and 24.2%, respectively.
- Net profit, at INR37.3bn, jumped 7.0% QoQ. Net margin rose 80bps QoQ to 21.2%.

Chart 1: Volume growth (QoQ)

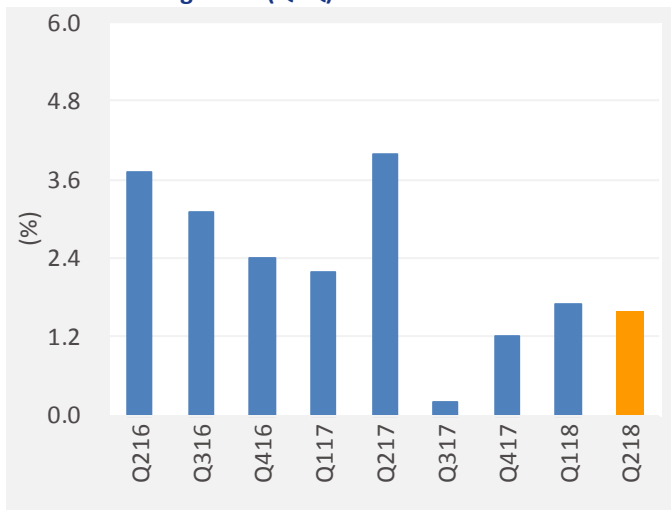
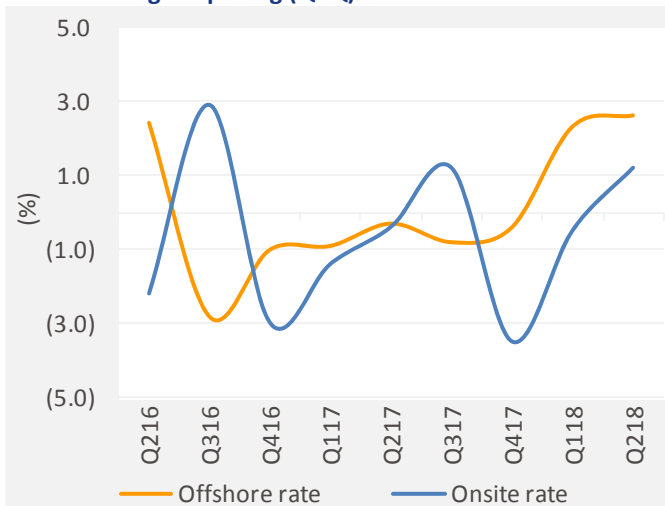


Chart 2: Change in pricing (QoQ)



Source: Company, Edelweiss research

- FY18 guidance:** Infosys revised its CC revenue growth guidance down to 5.5-6.5% (from 6.5-8.5%), which translates into 6.5-7.5% USD growth. The company maintained operating margin guidance in the 23-25% range for FY18.

Table 1: FY18 revenue guidance

Guidance (USD mn)	FY18	FY17	Y-o-Y growth (%)
Lower band	10,872	10,208	6.5
Upper band	10,974	10,208	7.5

Source: Company, Edelweiss research

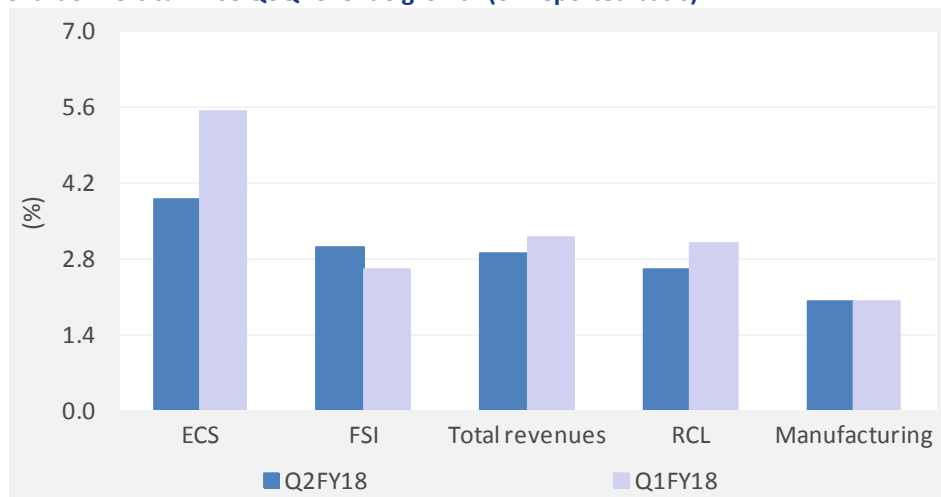
- Performance across client categories:** While top client's revenue rose 6.0%, top-10 clients grew 0.3%. Beyond top-10 clients grew 3.5% QoQ (in USD terms).
- Pricing:** While onsite pricing increased 1.9% QoQ, offshore pricing rose 2.6% QoQ. On blended basis, pricing increased 1.3% QoQ on reported basis.
- Horizontals:** Growth was led by IMS, BPM, Application Development and Testing Services, which reported 10.3%, 5.0%, 4.2% and 4.0% QoQ growth in USD terms, respectively. While Product Engineering Services and Consulting & Package Implementation reported 2.9% and 2.6% QoQ growth, respectively, Product & Platforms and Application Maintenance declined by 0.9% and 1.4% QoQ, respectively.
- New client addition:** Infosys added 72 clients during the quarter (59 in Q1FY18). Total number of active clients stood at 1,173 (1,164 in Q1FY18).

Table 2: Movement across client buckets

	Q217	Q317	Q417	Q118	Q218
More than 1 mn USD	577	591	598	606	620
More than 5 mn USD	277	275	282	279	286
More than 10 mn USD	186	195	189	190	186
More than 25 mn USD	89	90	91	97	100
More than 50 mn USD	54	54	56	56	55
More than 75 mn USD	30	32	31	31	31
More than 100 mn USD	18	18	19	18	19

Source: Company, Edelweiss research

- **Vertical-wise performance:** ECS, FSI, RCL and MFG & Hi-Tech grew 3.9%, 3.0%, 2.6% and 2.0% QoQ in USD terms, and 3.0%, 2.6%, 1.7% and 1.2% QoQ in CC terms, respectively.

Chart 3: Vertical-wise QoQ revenue growth (on reported basis)

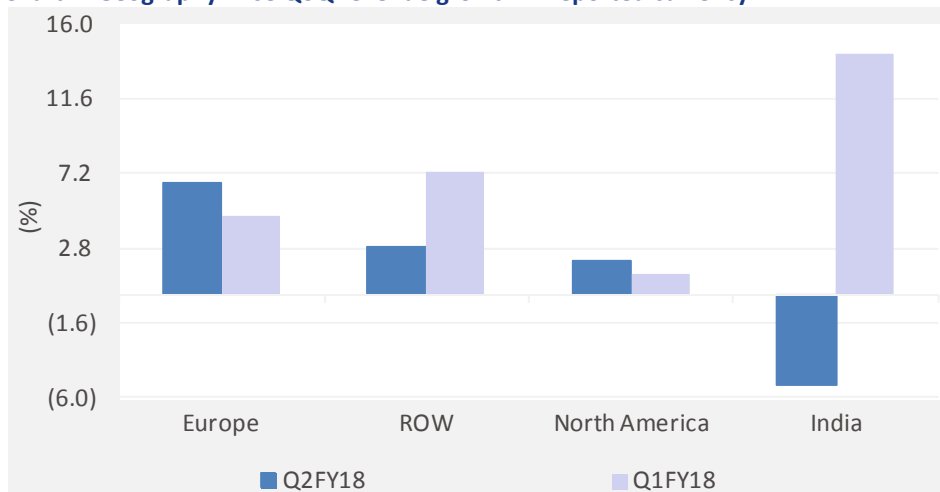
Source: Company, Edelweiss research

Table 3: Vertical-wise QoQ revenue growth (in CC)

Constant currency growth (%)	Q2FY18	Q1FY18
ECS	3.0	4.9
FSI	2.6	2.0
RCL	1.7	2.6
MFG & Hi-Tech	1.2	1.5

Source: Company, Edelweiss research

- **Geo split:** North America, Europe and RoW India grew 2.0%, 6.6% and 2.9% QoQ in USD and 1.9%, 4.1% and 2.3% QoQ in CC terms, respectively. India declined 5.2% QoQ in USD terms and 5.1% in CC terms.

Chart 4: Geography-wise QoQ revenue growth in reported currency

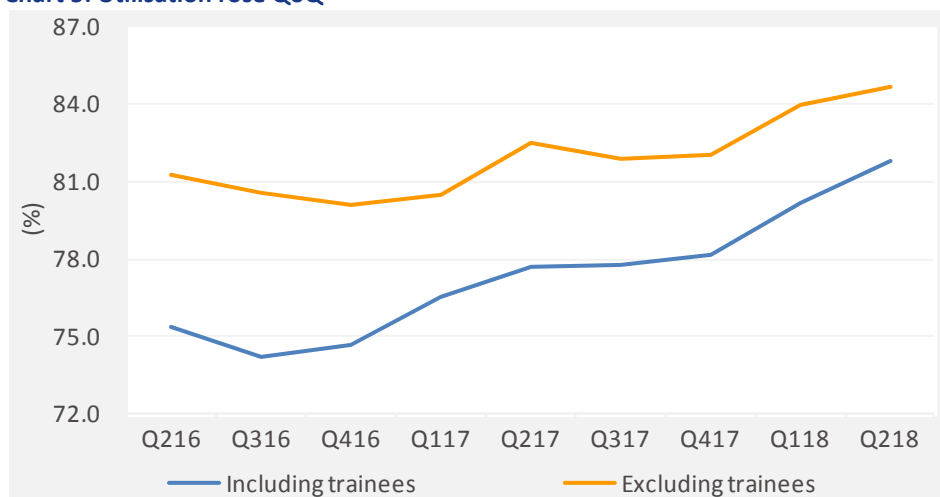
Source: Company, Edelweiss research

Table 4: Geography-wise QoQ revenue growth (in CC)

Constant currency growth (%)	Q2FY18	Q1FY18
Europe	4.1	3.1
ROW	2.3	6.9
North America	1.9	1.3
India	(5.1)	11.2

Source: Company, Edelweiss research

- **Utilisation:** Including trainees, utilisation improved by 160bps QoQ to 81.8%; excluding trainees, it stood at 84.7%, up 70bps QoQ.

Chart 5: Utilisation rose QoQ

Source: Company

- **Attrition (annualised consolidated):** Increased by 40bps to 21.4%. Annualised standalone attrition rate increased by 30bps to 17.2%.

Financial snapshot

(INR mn)

Year to March	Q2FY18	Q1FY18	% Change	Q2FY17	% Change	YTD18	FY18E	FY19E
Net revenues	175,670	170,780	2.9	173,100	1.5	346,450	707,071	784,556
Software development exp.	107,710	104,500	3.1	105,405	2.2	212,210	430,865	478,071
Gross profit	67,960	66,280	2.5	67,695	0.4	134,240	276,205	306,485
Selling & marketing exp	8,460	8,880	(4.7)	8,970	(5.7)	17,340	35,732	39,228
General & admin exp	12,480	11,790	5.9	11,420	9.3	24,270	48,792	53,350
Overhead expenditure	20,940	20,670	1.3	20,390	2.7	41,610	84,524	92,578
EBITDA	47,020	45,610	3.1	47,305	(0.6)	92,630	191,682	213,907
Depreciation	4,560	4,500	1.3	4,215	8.2	9,060	18,263	18,954
EBIT	42,460	41,110	3.3	43,090	(1.5)	83,570	173,419	194,953
Other income	8,830	7,430	18.8	7,570	16.6	16,260	29,291	23,423
Profit before tax	51,290	48,540	5.7	50,660	1.2	99,830	202,709	218,376
Provision for taxes	14,030	13,710	2.3	14,600	(3.9)	27,740	57,575	61,424
Reported net profit	37,260	34,830	7.0	36,060	3.3	72,090	145,134	156,952
Adjusted Profit	37,260	34,830	7.0	36,060	3.3	72,090	145,134	156,952
Diluted shares (mn)	2,287	2,287		2,286		2,287	2,231	2,174
Diluted EPS (INR)	16.3	15.2	7.0	15.8	3.3	31.5	65.1	72.2
Diluted P/E (x)	-	-		-		-	14.2	12.8
EV/EBITDA (x)	-	-		-		-	9.2	7.8
EV/Revenues (x)	-	-		-		-	2.5	2.1

As % of net revenues

Gross profit	38.7	38.8		39.1		38.7	39.1	39.1
Selling & marketing exp	4.8	5.2		5.2		5.0	5.1	5.0
Admin exp	7.1	6.9		6.6		7.0	6.9	6.8
EBITDA	26.8	26.7		27.3		26.7	27.1	27.3
Adjusted net profit	21.2	20.4		20.8		20.8	20.5	20.0
Reported net profit	21.2	20.4		20.8		20.8	20.5	20.0
Tax rate	27.4	28.2		28.8		27.8	28.4	28.1

Company Description

Infosys is the second-largest IT services company in India providing consulting and IT services to clients globally. It is also among the fastest growing IT services organization in the world and a leader in the offshore services space with a pioneer in Global delivery model. Infosys provides business consulting, application development and maintenance and engineering services to 1,173 active clients spread across Banking, Financial Services, Insurance, Retail, Manufacturing, and Utilities verticals and 50 countries. The company has also its own proprietary core banking software - Finacle used by some of the leading banks in India, Middle East, Africa and Europe. Infosys' total employee force stands at 198,440 and the company's TTM revenues stood at INR690bn (USD10.5bn).

Investment Theme

Infosys, in the recent past, lost market share to peers like TCS and HCL Technologies due to lack of strong presence in Infrastructure management services, lack of presence in emerging geographies and its aversion to provide flexibility in structuring contracts and offer discounted pricing to clients. The restructuring exercise also led to some distractions which led to slower growth compared to peers. We believe, on the back of the investments made it is likely to reduce the gap in revenue growth with peers and is best placed to expand its margins due to current low level of utilisation and possibility of increase in offshore execution coupled with higher contribution from non-linear business.

Key Risks

Key risks to our investment theme include – slower pick up in IT spend particularly on the discretionary side, appreciation of INR against USD, Euro and GBP.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.9	6.6	6.8	7.4
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.5	67.1	65.0	66.0
Company				
PRODS + BPO -Offsh. eff	93.6	93.6	93.6	93.6
PRODS + BPO - Onsite eff	6.4	6.4	6.4	6.4
PRODS+BPO-Onsite Utiliztn	93.0	93.0	93.0	93.0
PRODS+BPO-Offsh. Utiliztn	87.0	87.0	87.0	87.0
Gross additions	52,545	44,235	45,000	52,500
Freshers Added (BPO)	8,288	2,321	9,000	2,000
Emp. Added (BPO:Support)	582	312	750	2,415
Emp. Added (Banking grp)	(3,787)	497	997	162
Average attrition	22.2	16.8	18.8	14.0
Efforts				
IT Srvs - Onsite eff	25.6	29.9	29.4	29.0
IT Srvs- Offsh. eff	74.4	70.2	70.6	71.0
Utilisation				
IT Srvs - Onsite Utiliztn	93.0	95.0	95.0	95.0
IT Sers-Offsh. Utiliztn	76.9	80.9	79.3	79.0
Pricing change	0.1	0.1	0.1	0.0
Services-onsite	2.1	2.1	2.1	2.1
Services-offshore	(0.4)	(0.4)	(0.4)	(0.4)
Cost assumptions				
Salary hike - Onsite	(5.2)	0.2	(3.4)	-
Salary hike - Offshore	(6.3)	4.1	(3.5)	-
Travelling cost	2.6	2.4	2.2	9.9
Other costs	0.3	0.1	5.4	10.6
S&M expenses (% of rev.)	5.5	5.2	5.1	34.1
G&A expenses (% of rev.)	6.9	6.9	6.9	45.8
Financial assumptions				
Cash yield (%)	8.3	9.5	9.0	8.6
Tax rate as % of PBT	28.0	28.1	28.4	28.1
Capex (INR mn)	27,600	27,600	23,066	17,822
Debtor days	81	81	82	78
Payable days	104	104	111	110
Cash conversion cycle	(23)	(23)	(29)	(32)

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	624,410	684,850	707,071	784,556
Cost of revenues	376,400	415,525	430,865	478,071
Gross profit	248,010	269,325	276,205	306,485
Total SG&A expenses	77,230	83,300	84,524	92,578
S&M expenses	34,310	35,910	35,732	39,228
G&A expenses	42,920	47,390	48,792	53,350
EBITDA	170,780	186,025	191,682	213,907
Depreciation	14,590	17,005	18,263	18,954
EBIT	156,190	169,020	173,419	194,953
Add: Other income	31,230.00	30,490.00	29,290.64	23,423.16
Profit Before Tax	187,420	199,510	202,709	218,376
Less: Provision for Tax	52,520	55,980	57,575	61,424
Reported Profit	134,900	143,530	145,134	156,952
Adjusted Profit	134,900	143,530	145,134	156,952
Shares o /s (mn)	2,286	2,286	2,231	2,174
Adjusted Basic EPS	59.0	62.8	65.1	72.2
Diluted shares o/s (mn)	2,286	2,286	2,231	2,174
Adjusted Diluted EPS	59.0	62.8	65.1	72.2
Adjusted Cash EPS	65.4	70.2	73.3	80.9
Dividend per share (DPS)	24.3	25.7	38.7	43.3
Dividend Payout Ratio(%)	48.1	48.0	69.6	70.2

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Cost of revenues	60.3	60.7	60.9	60.9
Gross margin	39.7	39.3	39.1	39.1
G&A expenses	6.9	6.9	6.9	6.8
S&M expenses	5.5	5.2	5.1	5.0
SG&A expenses	12.4	12.2	12.0	11.8
EBITDA margins	27.4	27.2	27.1	27.3
EBIT margins	25.0	24.7	24.5	24.8
Net Profit margins	21.6	21.0	20.5	20.0

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	17.1	9.7	3.2	11.0
EBITDA	14.6	8.9	3.0	11.6
PBT	8.6	6.5	1.6	7.7
Adjusted Profit	9.4	6.4	1.1	8.1
EPS	9.4	6.4	3.6	11.0

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	11,440	11,440	10,877	10,877	
Reserves & Surplus	606,350	678,380	589,612	638,299	
Shareholders' funds	617,790	689,820	600,489	649,176	
Long Term Liabilities	1,150	1,530	1,340	1,340	
Def. Tax Liability (net)	(55,100)	(60,490)	(67,750)	(67,750)	
Sources of funds	563,840	630,860	534,079	582,766	
Gross Block	174,740	197,180	209,788	225,939	
Net Block	105,300	117,160	122,133	122,916	
Intangible Assets	47,490	44,280	44,880	44,880	
Total Fixed Assets	152,790	161,440	167,013	167,796	
Non current investments	18,110	63,820	61,690	61,690	
Cash and Equivalents	327,720	325,950	245,339	285,442	
Sundry Debtors	143,590	159,700	159,820	174,407	
Loans & Advances	45,640	51,400	52,150	52,150	
Other Current Assets	8,380	8,680	7,770	7,770	
Current Assets (ex cash)	197,610	219,780	219,740	234,327	
Trade payable	113,860	122,490	140,622	147,409	
Other Current Liab	18,530	17,640	19,080	19,080	
Total Current Liab	132,390	140,130	159,702	166,489	
Net Curr Assets-ex cash	65,220	79,650	60,038	67,838	
Uses of funds	563,840	630,860	534,079	582,766	
BVPS (INR)	270.3	301.8	269.2	298.6	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	134,900	143,530	145,134	156,952	
Add: Depreciation	14,590	17,005	18,263	18,954	
Others	(10,870)	(5,475)	(13,330)	-	
Less: Changes in WC	16,190	14,430	(19,612)	7,801	
Operating cash flow	122,430	140,630	169,680	168,106	
Less: Capex	34,700	27,600	23,066	17,822	
Free Cash Flow	87,730	113,030	146,614	150,284	

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		122,430	140,630	169,680	168,106
Investing cash flow		(31,160)	(170,740)	(35,636)	(17,822)
Financing cash flow		(67,970)	(70,610)	(236,175)	(110,180)
Net cash Flow		23,300	(100,720)	(102,131)	40,103
Capex		(34,700)	(27,600)	(23,066)	(17,822)
Dividend paid		(68,130)	(69,390)	(106,865)	(110,180)

Profitability and efficiency ratios		FY16	FY17	FY18E	FY19E
Year to March					
ROAE (%)		23.2	22.0	22.5	25.1
ROACE (%)		32.2	30.5	31.4	34.9
Debtors Days		79	81	82	78
Payable Days		103	104	111	110
Cash Conversion Cycle		(24)	(23)	(29)	(32)
Current Ratio		4.0	3.9	2.9	3.1

Operating ratios		FY16	FY17	FY18E	FY19E
Year to March					
Total Asset Turnover		1.2	1.1	1.2	1.4
Fixed Asset Turnover		4.4	4.4	4.3	4.7
Equity Turnover		1.1	1.0	1.1	1.3

Valuation parameters		FY16	FY17	FY18E	FY19E
Year to March					
Adj. Diluted EPS (INR)		59.0	62.8	65.1	72.2
Y-o-Y growth (%)		9.4	6.4	3.6	11.0
Adjusted Cash EPS (INR)		65.4	70.2	73.3	80.9
Diluted P/E (x)		15.7	14.8	14.2	12.8
P/B (x)		3.4	3.1	3.4	3.1
EV / Sales (x)		2.8	2.5	2.5	2.1
EV / EBITDA (x)		10.5	9.6	9.5	8.1
Dividend Yield (%)		2.6	2.8	4.2	4.7

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Infosys	32,707	14.2	12.8	9.5	8.1	22.5	25.1
Cyient	969	15.0	13.3	9.6	7.8	18.4	18.2
ECLERX SERVICES	768	14.0	12.6	8.5	7.0	26.5	24.8
HCL Technologies	20,057	14.2	13.0	11.1	9.9	25.2	24.3
Persistent Systems	806	14.9	12.7	9.0	7.1	17.3	17.9
Tata Consultancy Services	78,082	19.3	17.8	14.0	12.7	30.0	30.5
Tech Mahindra	6,821	13.3	11.7	8.8	7.1	17.2	17.6
Wipro	22,199	16.5	14.8	13.3	11.9	17.4	18.7
Median	-	14.6	12.9	9.6	7.9	20.4	21.5
AVERAGE	-	15.2	13.6	10.5	8.9	21.8	22.1

Source: Edelweiss research

Additional Data

Directors Data

Nandan Nilekani	Non-Executive Chairman of the Board	Kiran Mazumdar-Shaw	Independent Director
U. B. Pravin Rao	Interim MD and CEO	Roopa Kudva	Independent Director
Dr. Punita Kumar-Sinha	Independent Director	Ravi Venkatesan	Independent Director
DN Prahlad	Independent Director	D. Sundaram	Independent Director

Auditors - BSR & Co., Chartered Accountants

**as per last annual report*

Holding – Top 10

	Perc. Holding		Perc. Holding
Life Insurance Corp of India	7.03	Blackrock	5.02
Vanguard Group	3.73	HDFC Asset Management	2.81
ICICI Prudential Asset Mgmt	2.15	Oppenheimer Funds	1.90
Birla Sunlife Asset Mgmt	1.35	ICICI Prudential Life Insurance	1.33
Abu Dhabi Investment Authority	1.29	SBI Capital Markets	1.12

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Cyient	BUY	SP	H	ECLERX SERVICES	HOLD	SP	M
HCL Technologies	BUY	SP	H	Hexaware Technologies	HOLD	SP	M
Info Edge	BUY	SP	M	Infosys	HOLD	SP	L
Just Dial	REDUCE	SU	M	Persistent Systems	BUY	SP	L
Tata Consultancy Services	HOLD	SP	L	Tech Mahindra	BUY	SP	M
Wipro	HOLD	SP	L				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Aditya Narain

Head of Research

aditya.narain@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s): IT

Cyient, ECLERX SERVICES, HCL Technologies, Hexaware Technologies, Infosys, Info Edge, Just Dial, Persistent Systems, Tata Consultancy Services, Tech Mahindra, Wipro

Recent Research

Date	Company	Title	Price (INR)	Recos
17-Oct-17	Wipro	Fairly valued; Result Update	290	Hold
16-Oct-17	Persistent Systems	Inline performance; strong outlook ; Result Update	665	Buy
12-Oct-17	Tata Consultancy Services	In-line revenue performance; margin beat; Result Update	2548	Hold

Distribution of Ratings / Market Cap

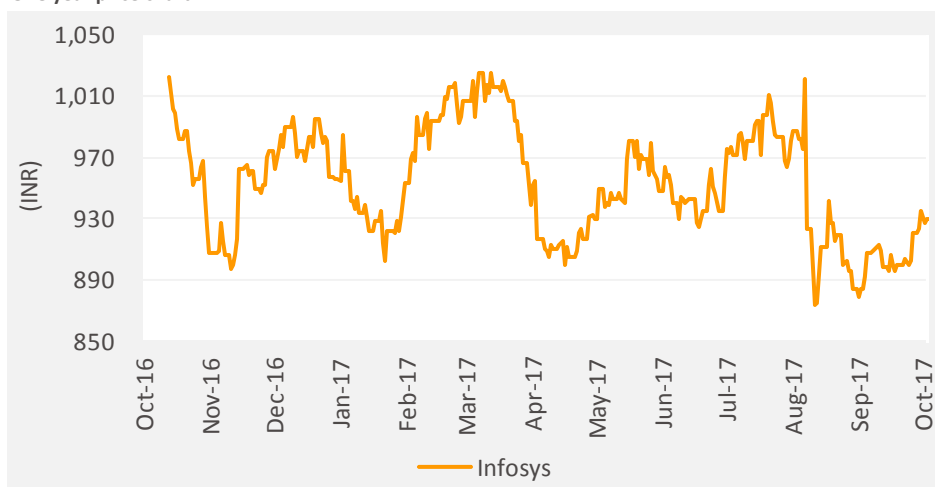
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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