

December 4, 2017

## Infosys (INFTEC)

₹ 996

### Infosys new version - From Sikka to Salil...

Infosys has announced the appointment of Salil S Parekh as CEO and MD of the company for five years effective January 2, 2018. Simultaneously, UB Pravin Rao would be re-designated as COO and Whole Time Director and would step down as interim CEO and MD. Mr Parekh has rich experience of 25 years with Capgemini (~\$15-billion revenue company with head count of ~1,90,000 employees). Mr Parekh, who had been a member of Capgemini's group executive board (equivalent to a deputy CEO's post), brings rich global exposure with a strong client relationship on the table. Nonetheless, we await new CEO commentary on the roadmap to transform Infosys. Hence, we maintain our Hold recommendation on the stock.

#### Infosys appoints Salil Parekh as new CEO effective January 2, 2018...

Infosys has announced that its board of directors has approved the following in its meeting on December 2, 2018-

- The appointment of Salil S Parekh as CEO and MD of the company with effect from January 2, 2018 for five years subject to approvals of shareholders and other regulatory requirements, if any. The appointment is based on the recommendation of the Nomination and Remuneration Committee, which concluded its global search for a CEO and MD
- The re-designation of UB Pravin Rao as COO and Whole Time Director with effect from January 2, 2018 upon stepping down as interim CEO and MD in accordance with the terms of appointment. Further, Mr Rao shall hold the office of Whole Time Director up to August 17, 202

#### Brief profile of Salil S Parekh...

Mr Parekh has rich experience of 25 years with Capgemini (~\$15 billion revenues with headcount of ~190000 employees). The tenure also includes eight years of E&Y division (which was subsequently acquired by Capgemini) and involves various leadership role for different strategic Business Unit at Capgemini. According to media reports, Mr Parekh, who has grown from executive rank, has built the offshore delivery capability at Capgemini. He grew the firm's India team from 800 people to 80,000 employees. Mr Parekh, who had been a member of Capgemini's group executive board (equivalent to a deputy CEO's post) has held various leadership roles. He was the CEO of the company's financial services business across Europe, North America and Asia, while also heading cloud infrastructure services at Sogeti & Cloud Services division. Commenting on the appointment of Mr Parekh, Chairman Nandan Nilekani mentioned that he has nearly three decades of global experience in the IT services industry with a strong track record of executing business turnarounds and managing very successful acquisitions.

#### Await new CEO roadmap for transformation; maintain HOLD...

With the appointment of Salil Parekh, the uncertainty around the Infosys management is behind us. Mr Parekh's global exposure to strong client relationships along with rich experience in cloud infrastructure services bode well for Infosys in the long term. Nonetheless, the uncertainty surrounding the transformation towards emerging technologies remains across the industry. We await the commentary of the new CEO on the roadmap for transformation of Infosys. Hence, we maintain our **HOLD** recommendation on Infosys with price target of ₹1020 (15x FY19E EPS).

#### Rating matrix

Rating	:	Hold
Target	:	₹ 1020
Target Period	:	12 months
Potential Upside	:	2%

#### What's Changed?

Target	Changed from ₹ 990 to ₹ 1020
EPS FY18E	Unchanged
EPS FY19E	Unchanged
Rating	Unchanged

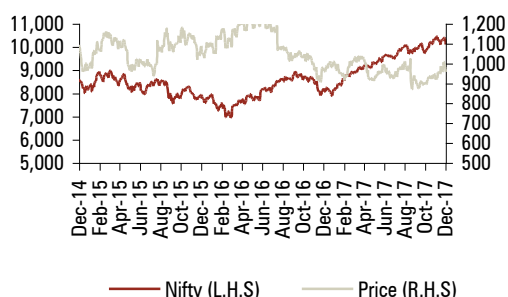
#### Key Financials

₹ Crore	FY16	FY17	FY18E	FY19E
Net Sales	62,441	68,485	70,420	76,988
EBITDA	17,079	18,605	18,661	20,556
Net Profit	13,491	14,353	13,869	14,773
EPS (₹)	59.0	62.8	63.8	68.0

#### Valuation summary

	FY16	FY17	FY18E	FY19E
P/E	16.9	15.9	15.6	14.6
Target P/E	17.3	16.2	16.0	15.0
EV / EBITDA	11.3	10.7	11.0	9.8
P/BV	3.7	3.3	3.5	3.1
RoNW (%)	21.8	20.8	22.1	21.1
RoCE (%)	30.2	28.8	30.8	29.7

#### Price Chart



#### Research Analyst

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## Financial summary

Profit and loss statement ₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Total operating Income	62,441	68,485	70,420	76,988
Growth (%)	17.1	9.7	2.8	9.3
COGS (employee expenses)	37,639	41,550	43,097	46,886
Admin expenses	4,292	4,739	4,789	5,389
S&M expenses	3,431	3,591	3,873	4,157
Total Operating Expenditure	45,362	49,880	51,759	56,433
EBITDA	17,079	18,605	18,661	20,556
Growth (%)	14.6	8.9	0.3	10.2
Depreciation	1,459	1,703	1,690	1,925
Other Income	3,125	3,079	2,460	2,212
PBT	18,742	19,951	19,398	20,807
Total Tax	5,251	5,598	5,528	6,034
PAT	13,491	14,353	13,869	14,773
Growth (%)	9.4	6.4	(3.4)	6.5
EPS (₹)	59.0	62.8	63.8	68.0
Growth (%)	9.4	6.4	1.7	6.5

Source: Company, ICICIdirect.com Research

Cash flow statement ₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Profit after Tax	13,491	14,353	13,869	14,773
Add: Depreciation	1,459	1,703	1,690	1,925
(Inc)/dec in Current Assets	(3,096)	(2,214)	(588)	(1,997)
Inc/(dec) in CL and Provisions	842	270	235	799
Taxes paid	(5,865)	(5,653)	(5,528)	(6,034)
CF from operating activities	12,243	14,063	12,747	13,287
(Inc)/dec in Investments*	88	(9,976)	2,460	2,212
(Inc)/dec in Fixed Assets	(2,723)	(2,760)	(2,500)	(2,500)
CF from investing activities	(3,116)	(17,074)	(40)	(288)
Dividend paid & dividend tax	(6,813)	(6,939)	(7,173)	(7,551)
Others	-	-	-	-
CF from financing activities	(6,813)	(6,939)	(20,173)	(7,551)
Net Cash flow	2,314	(9,950)	(7,466)	5,448
Exchange difference	16	(122)	-	-
Opening Cash	30,367	32,697	22,625	15,159
Closing Cash	32,697	22,625	15,159	20,607

Source: Company, ICICIdirect.com Research

Balance sheet ₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Equity Capital	1,144	1,144	1,087	1,087
Reserve and Surplus	60,635	67,838	61,591	68,813
Total Shareholders funds	61,779	68,982	62,679	69,901
Employee benefit obligations	-	-	-	-
Debt	-	-	-	-
Deferred Tax Liability	256	207	207	207
Other non current liabilities	115	153	153	153
Total Liabilities	62,150	69,342	63,039	70,261
Assets				
Property, plant and equipment	10,530	11,716	12,526	13,101
Goodwill	3,764	3,652	3,652	3,652
Intangibles	985	776	776	776
Available for sale assets	1,811	6,382	6,382	6,382
Other assets	6,604	7,124	7,124	7,124
Cash	32,697	22,625	15,159	20,607
Investment in CD	-	-	-	-
Trade receivables	11,330	12,322	12,670	13,852
Unbilled revenue	3,029	3,648	3,751	4,101
Prepayment & O.fin.assets	4,448	4,856	4,993	5,459
Other current assets	191	10,254	10,254	10,254
Total Current Assets	51,695	53,705	46,828	54,273
Trade payables	386	367	377	413
Unearned revenue	1,332	1,777	1,827	1,998
OCL & provisions	11,521	11,869	12,044	12,637
Total Current Liabilities	13,239	14,013	14,248	15,047
Net Current Assets	38,456	39,692	32,579	39,226
Application of Funds	62,150	69,342	63,039	70,261

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Per share data (₹)				
EPS	59.0	62.8	63.8	68.0
Cash EPS	65.4	70.2	71.6	76.9
BV	270.3	301.8	288.5	321.7
DPS	24.5	25.8	27.4	28.8
Cash Per Share	143.0	99.0	69.8	94.9
Operating Ratios (%)				
EBIT Margin	25.0	24.7	24.1	24.2
PBT Margin	30.0	29.1	27.5	27.0
PAT Margin	21.6	21.0	19.7	19.2
Debtor days	66	66	66	66
Unbilled revenue	17	18	19	19
Creditor days	2	2	2	2
Return Ratios (%)				
RoE	21.8	20.8	22.1	21.1
RoCE	30.2	28.8	30.8	29.7
RoIC	65.4	46.1	44.8	47.0
Valuation Ratios (x)				
P/E	16.9	15.9	15.6	14.6
EV / EBITDA	11.3	10.7	11.0	9.8
EV / Net Sales	3.1	2.9	2.9	2.6
Market Cap / Sales	3.6	3.3	3.2	3.0
Price to Book Value	3.7	3.3	3.5	3.1
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.9	2.7	2.7	2.7
Quick Ratio	1.9	2.7	2.7	2.7

Source: Company, ICICIdirect.com Research

## **RATING RATIONALE**

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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