

Infosys (INFO) reported a modest 0.8% QoQ constant currency (CC) revenue growth in 3QFY18 with stable operative metrics. Management commentary on the outlook was optimistic even though the -0.6%-3.1% band for the implied 4QFY18 USD revenue growth guidance, widest in at-least the last 3 years, suggest a caution from any lag impact of the August 2017 events, in our view. Like TCS, INFO has done well on cost containment and while the common levers appear peaking, we expect margins to remain stable. The Our FY18/FY19 EPS estimates are broadly unchanged; the impact of lower other income (due to the recent buyback) has been largely offset by the reduced share-count + a lower effective tax rate post the recent Advanced Pricing Agreement (APA) with the US Internal Revenue Service (IRS). Maintain BUY; price target revised to INR 1,150 (INR 1,110 earlier).

- **3QFY18 – no surprises.** Consolidated revenue grew 1% QoQ (+0.8% CC), in-line with our estimates, driven by volumes (1.6%). Blended realisation was down 0.9% QoQ in CC terms, likely due to service mix changes; contract pricing appears stable. EBIT margin held steady at 24.3% (+10bps QoQ) despite the wage hike + a higher variable pay-out, helped by higher revenues hedges (+50bps; USD 2mn gain vs. USD 12mn loss in 2QFY18) and lower sub-contractor/G&A costs (+60bps). PAT, adjusted for the USD 225mn one-time tax reversal due to the APA, was INR 37bn, in-line with our estimates.
- **CY18 outlook – cautious optimism?** INFO reported a similar softness in BFS as TCS in 3QFY18; revenues were down 1.6% QoQ due to higher than normal furloughs among the US clients + slower ramp-up in deals. Despite that, INFO was relatively more upbeat on the vertical, likely due to the expectation of increased discretionary spend and strong deal wins (5 of the 8 large deals in 3QFY18 were in BFSI). Among other verticals, telecom and energy continue to do well (c.6% CQGR over the last 4 quarters) though INFO remains cautious on Retail despite the 3% QoQ growth in 3QFY18. Large deal wins were in-line with recent quarters (USD 779mn) and the new services/software continue to do well (+5.5% QoQ); INFO indicated 'digital' is now 25%+ of its revenues. We have broadly maintained our 7%/8% USD revenue growth forecasts for FY19/FY20.
- **Management/board structure – stability at the top?** Salil Parekh, who took over as CEO 10 days ago, is in the induction phase and plans to come up with his road-map for INFO by April 2018. We also expect a realignment in the portfolio of senior management; the exit of Rajesh Murthy should consolidate the roles of Mohit Joshi and Ravi Kumar, the other two Presidents. Importantly, Nandan Nilekani continuance as the non-executive chairman should prevent recurrence of the earlier board-promoter conflicts.
- **We prefer INFO over TCS.** Changes to FY19/FY20 EPS estimates are minor (-1%/+1%); we maintain BUY and roll-forward our price target to INR 1,150 at 15x target PER (unchanged). INFO's 21% relative valuation gap vs. TCS despite a similar growth profile + limited risk from the US tax changes (due to its branch structure unlike TCS' subsidiary structure) makes us relatively more constructive on it. A healthy cash-flow generation (c.5% FY19 FCF yield) + return of stability in the board/management are other positives.

Financial Summary					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	6,24,410	6,84,850	7,03,246	7,60,279	8,34,787
Sales Growth	17.1%	9.7%	2.7%	8.1%	9.8%
EBITDA	1,70,780	1,86,050	1,87,600	2,05,820	2,26,795
EBITDA Margin	27.4%	27.2%	26.7%	27.1%	27.2%
Adjusted Net Profit	1,34,900	1,43,530	1,58,664	1,54,135	1,71,710
Diluted EPS (INR)	59.0	62.8	70.2	70.5	78.6
Diluted EPS Growth	9.4%	6.4%	11.9%	0.4%	11.4%
ROIC	45.7%	42.6%	43.1%	42.5%	45.2%
ROE	23.2%	22.0%	24.5%	24.0%	23.9%
P/E (x)	18.3	17.2	15.3	15.3	13.7
P/B (x)	4.0	3.6	4.0	3.5	3.1
EV/EBITDA (x)	12.4	11.4	11.8	10.4	9.2
Dividend Yield	2.2%	2.4%	2.6%	2.9%	3.1%

Source: Company data, JM Financial. Note: Valuations as of 12/Jan/2018

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,150
Upside/(Downside)	6.6%
Previous Price Target	1,110
Change	3.6%

Key Data – INFO IN

Current Market Price	INR1,078
Market cap (bn)	INR2,477.2/US\$38.9
Free Float	79%
Shares in issue (mn)	2,263.6
Diluted share (mn)	2,259.1
3-mon avg daily val (mn)	INR4,521.3/US\$71.1
52-week range	1,089/860
Sensex/Nifty	34,592/10,681
INR/US\$	63.6

Price Performance

%	1M	6M	12M
Absolute	6.7	10.9	7.8
Relative*	2.5	2.0	-15.1

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Key financials

(INR mn)	3Q17	4Q17	FY17	1Q18	2Q18	3Q18	Comments
Consolidated revenues (USDmn)	2,551	2,569	10,208	2,651	2,728	2,755	■ Consolidated revenues grew 1% QoQ in USD terms (vs. 1.1% JMFe), while growth in constant currency terms stood at 0.8% QoQ (vs. 1.1% JMFe)
Change (QoQ/ YoY)	-1.4%	0.7%	7.4%	3.2%	2.9%	1.0%	
Consolidated revenues (INR mn)	1,72,730	1,71,200	6,84,850	1,70,780	1,75,670	1,77,940	■ Reported revenues include USD 2mn of revenue hedge gains (vs. USD 12mn loss in 2QFY18)
Change (QoQ/ YoY)	-0.2%	-0.9%	9.7%	-0.2%	2.9%	1.3%	
Cost of revenue	1,04,070	1,03,240	4,15,500	1,04,500	1,07,710	1,09,520	■ Growth was net of 0.7% QoQ decline in realisation and 1.6% QoQ volume growth in IT services
Gross profit	68,660	67,960	2,69,350	66,280	67,960	68,420	
Gross margin	39.7%	39.7%	39.3%	38.8%	38.7%	38.5%	■ BPO revenues declined by 0.7% QoQ while Products and Platforms grew by 4.1% QoQ
Total operating expenses	20,990	21,380	83,300	20,670	20,940	20,250	
EBITDA	47,670	46,580	1,86,050	45,610	47,020	48,170	■ EBIT margin expanded marginally by 10bps (vs. +29bps JMFe)
EBITDA margin	27.6%	27.2%	27.2%	26.7%	26.8%	27.1%	
Depreciation & amortization	4,330	4,460	17,030	4,500	4,560	4,980	■ Forex gains in 3QFY18 stood at INR 460mn (vs. INR 620mn in 2QFY18)
EBIT	43,340	42,120	1,69,020	41,110	42,460	43,190	
EBIT margin	25.1%	24.6%	24.7%	24.1%	24.2%	24.3%	■ On account of the conclusion of an Advance Pricing Agreement (APA) with the US Internal Revenue Service, the company has reversed income tax expense provision of INR 14.32mn which has increased the profit and therefore, led to an increase in BEPS by INR 6.29 for 3QFY18
Other income	8,200	7,210	30,540	7,430	8,830	9,620	
Profit Before Tax	51,540	49,330	1,99,560	48,540	51,290	52,810	■ Other income includes interest on income tax refund of INR 2,000mn for 3QFY18
Income tax expense	14,460	13,300	55,980	13,710	14,030	1,520	
Net income from operations	37,080	36,030	1,43,580	34,830	37,260	51,290	■ Cash flow generation remains strong – OCF/EBITDA at 88% and FCF/PAT at 75%; DSO increased by one day to 70
Share of minority interest	0	0	50	0	0	0	
PAT	37,080	36,030	1,43,530	34,830	37,260	51,290	
Change (QoQ/ YoY)	2.8%	-2.8%	6.4%	-3.3%	7.0%	37.7%	
Adjusted Diluted EPS	16.2	15.8	62.8	15.2	16.3	22.5	
Change (QoQ/ YoY)	2.8%	-2.8%	6.4%	-3.3%	7.0%	38.3%	

Source: Company, JM Financial

Management commentary: Key takeaways

- **Vertical commentary:** BFSI - 3QFY18 was affected by higher than normal furloughs, budget cuts in a few large clients and longer transitions in recent deal wins. Outside of this, INFOS sees signs of higher discretionary spend in CY18, a strong deal pipeline and an increase in wallet share. INFO expects growth to pick up in the vertical in CY18. **Retail/CPG** - good growth in 3QFY18 was due to increased project flow, especially in CPG. However, INFO remains cautious due to the structural challenges in retail though in CPG, growing consolidation is opening up growth opportunities and discretionary spend is also gaining momentum. **Manufacturing** – 3QFY18 was affected by furloughs in the US clients that offset growth in Europe. Overall sector demand remains moderate.
- **Agenda for the new CEO:** Salil is reviewing the strategy refresh exercise that was done post Nandan's joining as the non-executive chairman in August 2017. He intends to connect with INFO's clients and employees over the next three months and come-up with his set of strategic priorities for priorities, including the review of the capital allocation plan.
- **Development presence in the US:** INFO has set up a hub in Indianapolis and is planning another in Raleigh, North Carolina. It is also exploring two or three additional locations. However, the planned headcount addition of 10,000 over the next 2 years is partially replacement (of on-visa employees with locals) and will be fresher centric to leverage pyramid cost efficiencies in onsite delivery.
- **APA/US tax law changes:** The reduction in the US federal tax rate had a positive impact of USD 27mn on account of tax credits pertaining to deferred tax liabilities and branch profit. It expects the net impact of the recent tax changes to be neutral based on the preliminary assessment. INFO expects APA to lead to 1ppt lower ETR over next 3 years (till 2021).

Exhibit 2. Movement in margin drivers

	3Q17	2Q18	3Q18	Change (%)	Comments
				QoQ	YoY
INR/USD	67.71	64.40	64.59	0.3%	-4.6%
Consolidated revenues (INR mn)	1,72,730	1,75,670	1,77,940	1.3%	3.0%
IT services revenues (INR mn)	1,54,593	1,59,333	1,61,392	1.3%	4.4%
A. EXECUTION METRICS					
Utilisation (ex-trainees)	81.9%	84.7%	84.9%	28bp	309bp
Average realization (USD/person-month)					
- Onsite	11,969	12,279	12,176	-0.8%	1.7%
- Offshore	3,906	4,081	4,105	0.6%	5.1%
- Blended	6,306	6,489	6,446	-0.7%	2.2%
Billed effort- IT + Cons. (person-month)					
- Onsite	1,08,562	1,11,930	1,12,349	0.4%	3.5%
- Offshore	2,56,197	2,69,202	2,75,029	2.2%	7.4%
- Total	3,64,759	3,81,132	3,87,378	1.6%	6.2%
B. COST DRIVERS					
Wage costs	83,620	85,830	88,100	2.6%	5.4%
As % of revenues	48.4%	48.9%	49.5%	1.3%	2.3%
Other cost of revenues	20,450	21,880	21,420	-2.1%	4.7%
As % of revenues	11.8%	12.5%	12.0%	-42bp	20bp
Gross profit	68,660	67,960	68,420	0.7%	-0.3%
Gross margin	39.7%	38.7%	38.5%	-24bp	-130bp
Sales and marketing expenses	8,850	8,460	8,770	3.7%	-0.9%
As % of revenues	5.1%	4.8%	4.9%	11bp	-19bp
G&A expenses	12,140	12,480	11,480	-8.0%	-5.4%
As % of revenues	7.0%	7.1%	6.5%	-65bp	-58bp
EBITDA	47,670	47,020	48,170	2.4%	1.0%
EBITDA margin	27.6%	26.8%	27.1%	30bp	-53bp

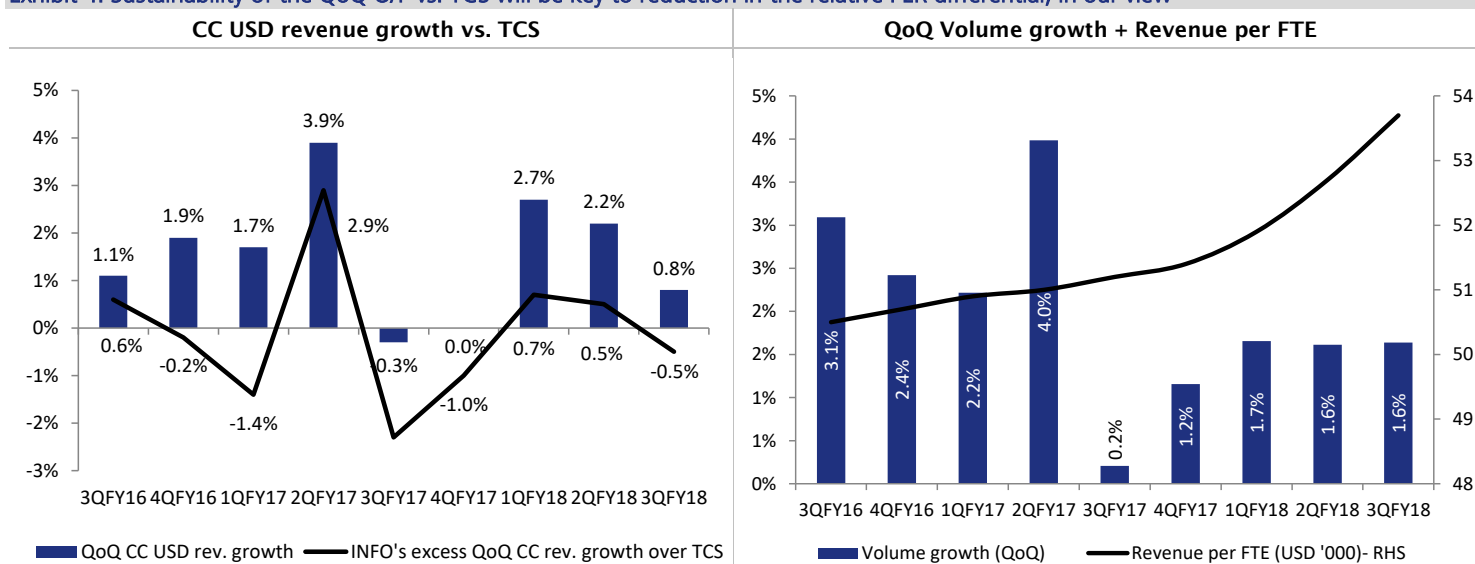
Source: Company, JM Financial

Exhibit 3. Key manpower and execution metrics

	3Q17	4Q17	1Q18	2Q18	3Q18	Comments
Manpower base						
Total (Infosys cons)	1,99,763	2,00,364	1,98,553	1,98,440	2,01,691	Utilisation (ex-trainees) was at an all-time high of 84.9% in 3QFY18 (vs. 84.7% in 2QFY18)
Cons IT services	1,66,244	1,67,225	1,65,742	1,65,470	1,68,265	
BPO services	33,519	33,139	32,811	32,970	33,426	Attrition declined to 15.8% for standalone operations and to 18.7% for the entire group
Net addition	-66	601	-1,811	-113	3,251	
As % of opening base	0.0%	0.3%	-0.9%	-0.1%	1.6%	The company reiterated its plans to hire c.10,000 local employees in the US over the next two years as a part of their on-going program to increase their local presence
Utilisation - Including trainees						
Utilisation - Excluding trainees	78.5%	78.8%	80.8%	82.3%	82.5%	
Attrition (TTM) - Infosys cons	82.4%	82.6%	84.5%	85.1%	85.4%	
Attrition (QA) - Infosys India	19.2%	19.1%	19.1%	19.5%	19.5%	

Source: Company, JM Financial

Exhibit 4. Sustainability of the QoQ O/P vs. TCS will be key to reduction in the relative PER differential, in our view



Source: Company, JM Financial

Exhibit 5. FY18 revenue growth guidance

	Guidance		Comments
FY18 Guidance	Lower	Higher	
Revenue (INR bn)	699,232	706,080	FY18 guidance maintained at 5.5%-6.5% in constant currency terms and 6.5% to 7.5% in reported USD terms. This implies -0.6%-3.1% growth in 4QFY18
Revenue (USD mn)	10,872	10,974	
INR/USD assumption	63.88		

Source: Company, JM Financial

Exhibit 6. Services portfolio

	3Q17	4Q17	1Q18	2Q18	3Q18	Comments
Distribution						
Business IT Services	62.0%	61.9%	62.0%	62.3%	61.9%	Business Process Management recorded the highest growth (+30.5% QoQ) while Application maintenance recorded +2.3% QoQ growth and Testing services grew by 1.0% QoQ
Application Development	15.5%	15.3%	15.4%	15.6%	15.4%	
Application Maintenance	17.0%	16.8%	16.7%	16.0%	16.2%	
Infrastructure Management Services	8.6%	8.5%	8.4%	9.0%	8.8%	Product Engineering Services reported a decline of 21% QoQ followed by Infrastructure Management Services (-1.3% QoQ) and Application Development (-0.3%); Others declined by 8.8% QoQ
Testing Services	9.1%	9.0%	9.3%	9.4%	9.4%	
Business Process Management	4.9%	5.1%	5.0%	4.1%	5.3%	
Product Engineering Services	3.9%	4.0%	4.1%	5.1%	4.0%	Management commented that Digital services contributed to more than 25% and are planning to publish this metric in the coming quarters
Others	3.0%	3.2%	3.1%	3.1%	2.8%	
Consulting & Systems Integration	32.4%	32.6%	32.6%	32.5%	32.8%	
Products, Platforms and Solutions	5.6%	5.5%	5.4%	5.2%	5.3%	Infosys started reporting revenues from the new services and software (those launched from 1Apr'15); the revenue shares were 9.9% and 1.7% respectively
Total services	94.4%	94.5%	94.6%	94.8%	94.7%	
Revenue (USD mn and QoQ growth)	100.0%	100.0%	100.0%	100.0%	100.0%	
Business IT Services	1,582	1,590	1,644	1,700	1,705	New services include the Cloud ecosystem, big data and analytics, API and micro services, data and mainframe modernization, cyber-security and IoT
Application Development	395	393	408	426	424	
Change QoQ	-2.0%	-0.6%	3.9%	4.2%	-0.3%	
Application Maintenance	434	432	443	436	446	New software include Edge, NIA, Panaya and Skava
Change QoQ	-7.4%	-0.5%	2.6%	-1.4%	2.3%	
Infrastructure Management Services	219	218	223	246	242	
Change QoQ	1.0%	-0.5%	2.0%	10.3%	-1.3%	In Hi-Tech and Insurance, the management expects a lot more focus on optimisation of non-discretionary spends, whereas in RCL and manufacturing, it expects higher focus on transformational initiatives
Testing Services	232	231	247	256	259	
Change QoQ	-2.5%	-0.4%	6.6%	4.0%	1.0%	
Business Process Management	125	131	133	112	146	
Change QoQ	-1.4%	4.8%	1.2%	-15.6%	30.5%	
Product Engineering Services	99	103	109	139	110	
Change QoQ	3.9%	3.3%	5.8%	28.0%	-20.8%	
Others	77	82	82	85	77	
Change QoQ	2.0%	7.4%	0.0%	2.9%	-8.8%	
Consulting & Systems Integration	827	837	864	887	904	
Products, Platforms and Solutions	141	554	143	142	146	

Source: Company, JM Financial

Exhibit 7. Vertical portfolio

	3Q17	4Q17	1Q18	2Q18	3Q18	Comments
Distribution						
Banking & financial services	27.2%	27.4%	27.1%	27.0%	26.3%	Insurance, Energy & Utilities, Transport & Logistics, Retail & CPG and Communication & Services grew by 7.3%, 6.5%, 6.0%, 3.2% and 2.0% respectively while Healthcare, Life Sciences and Banking declined by 4.1%, 3.2% and 1.6% respectively
Insurance	6.1%	6.1%	6.2%	6.4%	6.8%	
Manufacturing	22.5%	22.4%	22.2%	22.0%	21.8%	
Retail & CPG	14.6%	14.1%	14.2%	13.8%	14.1%	Management indicated of signs of improvement in spending trend in Financial Services led by increased discretionary spending
Transport & Logistics	2.0%	2.0%	1.9%	2.0%	2.1%	
Life Sciences	4.6%	4.6%	4.6%	4.8%	4.6%	
Healthcare	2.3%	2.0%	2.0%	2.0%	1.9%	In Hi-Tech and Insurance, the management expects a lot more focus on optimisation of non-discretionary spends, whereas in RCL and manufacturing, it expects higher focus on transformational initiatives
Energy & Utilities	5.0%	5.0%	5.2%	5.5%	5.8%	
Communication and Services	9.1%	9.9%	10.4%	10.4%	10.5%	
Others	6.6%	6.5%	6.2%	6.1%	6.1%	
Revenue (USDmn and QoQ growth)						
Financial Services and Insurance	849	861	883	911	912	
Change QoQ	-0.8%	1.3%	2.6%	3.2%	0.1%	
Manufacturing	574	575	589	600	601	
Change QoQ	-1.4%	0.3%	2.3%	2.0%	0.1%	
Retail, Logistics, CPG and Life Sciences	599	583	602	617	625	
Change QoQ	-1.4%	-2.7%	3.2%	2.5%	1.4%	
Energy & Utilities, Comm. and Services	528	550	578	600	617	
Change QoQ	-2.3%	4.1%	5.1%	3.8%	2.8%	

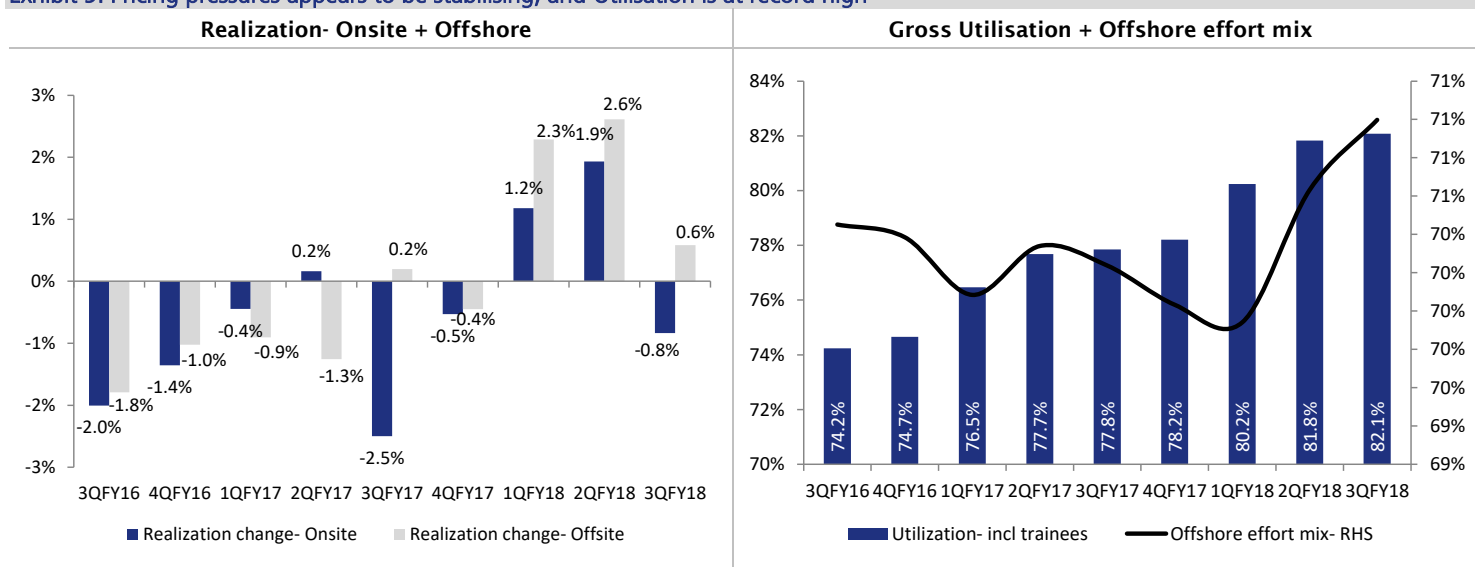
Source: Company, JM Financial

Exhibit 8. Key client metrics

	3Q17	4Q17	1Q18	2Q18	3Q18	Comments
Client base						
Active clients	1,152	1,162	1,164	1,173	1,191	
Net client addition	16	10	2	9	18	
Clients attrition	61	61	57	63	61	
Revenue per active client (USD mn)	2.21	2.21	2.28	2.33	2.31	
Revenue concentration						
Top client	3.1%	3.3%	3.3%	3.4%	3.4%	▪ Infosys added 79 new clients in 3QFY18 vs 72 in 2QFY18
Top 10 clients	20.1%	20.2%	20.0%	19.5%	19.2%	
Non-Top10 clients	79.9%	79.8%	80.0%	80.5%	80.8%	▪ Top client grew 3.4% QoQ but revenues from the both top 10 and top 25 clients decreased by 0.6% and 1.0% QoQ respectively
Repeat business	96.7%	96.2%	99.4%	98.7%	98.3%	
Revenue growth						
Top client	-12.7%	7.2%	3.2%	6.0%	1.0%	
Top-10 clients	-9.1%	1.2%	2.2%	0.3%	-0.6%	▪ Management indicated having eight large deal wins during the quarter with a TCV of USD 779mn (vs. USD 731mn in 2QFY18)
Non-top-10 clients	0.8%	0.6%	3.5%	3.5%	1.4%	
Repeat business	-2.2%	0.2%	6.6%	2.2%	0.6%	
Relationship distribution						
USD 1mn+ Clients	591	598	606	620	630	▪ While the large deal TCV increased sequentially, the share of renewals within the same was larger this time
Change QoQ	14	7	8	14	10	
USD 5mn+ Clients	275	282	279	286	290	
Change QoQ	-2	7	-3	7	4	▪ Repeat business stood at 98.3% in 3QFY18 (vs. 98.7% in 2QFY18)
USD 10mn+ Clients	195	189	190	159	198	
Change QoQ	9	-6	1	-31	39	▪ Number of USD 100mn+ clients increased by one this quarter to 20
USD 25mn+ Clients	90	91	97	100	101	
Change QoQ	1	1	6	3	1	
USD 50mn+ Clients	54	56	56	55	56	
Change QoQ	0	2	0	-1	1	
USD 75mn+ Clients	32	31	31	31	34	
Change QoQ	2	-1	0	0	3	
USD 100mn+ Clients	18	19	18	19	20	
Change QoQ	0	1	-1	1	1	

Source: Company, JM Financial

Exhibit 9. Pricing pressures appears to be stabilising; and Utilisation is at record high



Source: Company, JM Financial

Maintain BUY; target price revised to INR 1,150

Changes in our key assumptions

- We have adjusted our assumptions for 3QFY18 actuals and reset our INR/USD exchange rate assumptions to factor in the recent INR appreciation. Changes in our volume growth assumptions are marginal – we do not expect significant incremental headroom on utilisation as suggested by the hiring in 3QFY18 which was the highest in the last eight quarters. We continue to expect marginal improvement in realisations over FY18-20.
- We have moderated our growth assumptions for BPO and Products given slower than expected growth in 3QFY18. Thus, our overall USD revenue forecasts are broadly unchanged.
- We have factored in the reduced share-count post the recent buyback. We have also lowered our effective tax rate to build in the guided impact of the APA. However, our other income estimates are also lower due to reduced cash balance. Net of these, our FY19/FY20 EPS estimates are broadly unchanged. FY18F EPS is higher due to the USD 225mn one-time tax reversal impact in 3QFY18.

Changes in our valuations and price target

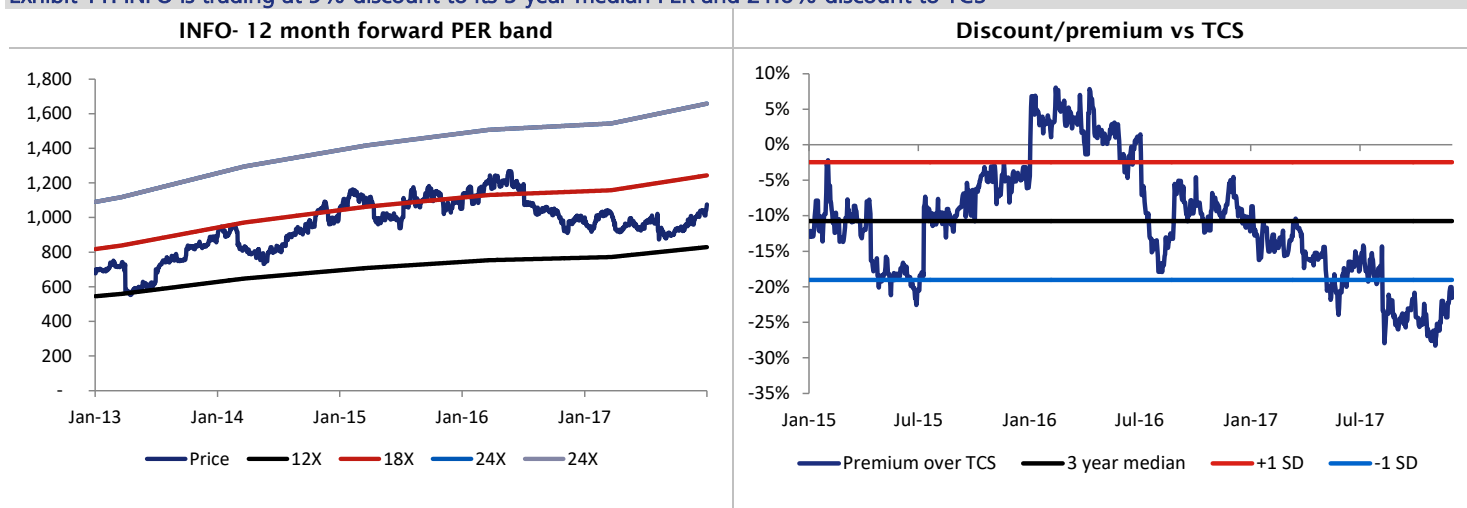
- Our target PER is unchanged at 15x 12-month forward EPS.
- Our price target is raised to INR 1,150 from INR 1,110 earlier mainly on the roll-forward.

Exhibit 10. What has changed in our forecasts and assumptions?

	Old			New			Change		
	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F
Exchange rate (INR/USD)	64.77	66.00	67.00	64.35	65.00	66.00	-0.7%	-1.5%	-1.5%
Consolidated revenue (USD mn)	10,900	11,582	12,469	10,929	11,697	12,578	0.3%	1.0%	0.9%
Growth in USD revenues (YoY)	6.8%	6.3%	7.7%	7.1%	7.0%	7.5%	28bp	76bp	-12bp
Consolidated revenue (INR mn)	7,05,995	7,64,441	8,35,442	7,03,246	7,60,279	8,30,168	-0.4%	-0.5%	-0.6%
EBITDA margin	26.9%	27.0%	27.1%	26.7%	27.0%	27.0%	-19bp	-3bp	-4bp
EBIT margin	24.3%	24.6%	24.8%	24.0%	24.5%	24.7%	-32bp	-12bp	-9bp
PAT (INR mn)	1,47,078	1,61,047	1,77,529	1,58,664	1,53,177	1,69,356	7.9%	-4.9%	-4.6%
EPS	64.30	70.40	77.61	70.09	68.93	77.50	9.0%	-2.1%	-0.1%

Source: JM Financial

Exhibit 11. INFO is trading at 9% discount to its 5-year median PER and 21.6% discount to TCS



Source: JM Financial, Bloomberg

Company background

Incorporated in 1981, Infosys is the second largest Indian IT services player. It has over 1,190 active clients spread across verticals such as Banking, Financial Services, Insurance, Retail, Manufacturing, Telecom, Utilities and Transportation. Its client base is spread across North America, Europe and Asia Pacific and includes prominent names like Bank of America, Apple, Walmart, Microsoft, Goldman Sachs, and Nordstrom among others. Infosys serves these clients out of offices and development centres in India, China, Australia, the Czech Republic, Poland, the UK, Canada and Japan.

Investment Rationale

- **No incremental weakness in the outlook.** Management commentary during 3QFY18 results was cautiously optimistic with expectations of growth in BFS in CY18 to be better than CY17. While activity on large (USD 100mn+ TCV) deals is stable (reported TCV addition in 3QFY18 was similar to the recent quarters). We believe INFO is on track to achieve FY18 USD revenue growth with-in the guided 6.5-7.5% guidance band and expect similar growth in FY19/FY20. Further, 3QFY18 results showcase strong focus on cost management that gives confidence in the EBIT margin sustaining in the 23-25% guided band despite the INR appreciation, in our view.
- **Earnings downgrade cycle could take a breather.** Street's expectations have moderated over the last 12 months – consensus FY18 USD revenue growth estimates have been cut by 3.3ppt – and now track the management guidance. Thus, we see minimal changes to the current consensus estimates post 3QFY18 results.
- **Relative valuations are attractive.** We believe a pause in the earnings downgrades + modest valuations (15.5x FY19E; c.21% discount to the broader market) makes a case to play INFO's healthy cash-flow generation (c.5% FCF yield) + build-up of digital/automation assets. The growth moderation in TCS + its relative PER premium (+25%) could also trigger a minor shift to INFO, in our view. Maintain BUY; TP roll-forwards to INR 1,150 (15x target PER).

Key Risks

- Key downside risks to our price target are: (1) INR appreciation beyond the levels we currently assume and/or adverse cross-currency movements; (2) a further economic slowdown in key markets, affecting the corporate IT spending pattern and volumes; (3) higher-than-expected pricing pressures;
- Upside could come from: (1) INR depreciation more than the level we assume; (2) faster-than-anticipated recovery in project awards/ramp-ups or large deal wins ahead of numbers or contract value factored into our estimates; and (3) acquisitions/large deal wins not currently built into our model.

Exhibit 12. How we differ from consensus

	Consensus estimates			JMFe			Difference		
	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F
Sales (INR mn)	7,06,889	7,66,998	8,31,545	7,03,246	7,60,279	8,34,787	-0.5%	-0.9%	0.4%
EBITDA (INR mn)	1,89,120	2,04,471	2,20,197	1,87,600	2,05,820	2,26,795	-0.8%	0.7%	3.0%
EBITDA margin	26.8%	26.7%	26.5%	26.7%	27.1%	27.2%	-3bp	41bp	69bp
Net Income (INR mn)	1,45,447	1,52,554	1,65,796	1,58,664	1,54,135	1,71,710	9.1%	1.0%	3.6%
EPS (INR)	64.8	68.9	74.5	70.1	69.4	78.6	8.1%	0.6%	5.4%

Source: JM Financial, Bloomberg

Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	6,24,410	6,84,850	7,03,246	7,60,279	8,34,787
Sales Growth	17.1%	9.7%	2.7%	8.1%	9.8%
Other Operating Income	0	0	0	0	0
Total Revenue	6,24,410	6,84,850	7,03,246	7,60,279	8,34,787
Cost of Goods Sold/Op. Exp	3,76,400	4,15,500	4,32,272	4,65,313	5,12,086
Personnel Cost	0	0	0	0	0
Other Expenses	77,230	83,300	83,374	89,146	95,906
EBITDA	1,70,780	1,86,050	1,87,600	2,05,820	2,26,795
EBITDA Margin	27.4%	27.2%	26.7%	27.1%	27.2%
EBITDA Growth	14.6%	8.9%	0.8%	9.7%	10.2%
Depn. & Amort.	14,590	17,030	19,014	18,795	19,324
EBIT	1,56,190	1,69,020	1,68,586	1,87,025	2,07,471
Other Income	31,250	30,540	32,555	24,119	27,748
Finance Cost	0	0	0	0	0
PBT before Excep. & Forex	1,87,440	1,99,560	2,01,141	2,11,143	2,35,219
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	1,87,440	1,99,560	2,01,141	2,11,143	2,35,219
Taxes	52,520	55,980	42,476	57,009	63,509
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	20	50	0	0	0
Reported Net Profit	1,34,900	1,43,530	1,58,664	1,54,135	1,71,710
Adjusted Net Profit	1,34,900	1,43,530	1,58,664	1,54,135	1,71,710
Net Margin	21.6%	21.0%	22.6%	20.3%	20.6%
Diluted Share Cap. (mn)	2,285.7	2,286.1	2,259.1	2,185.3	2,185.3
Diluted EPS (INR)	59.0	62.8	70.2	70.5	78.6
Diluted EPS Growth	9.4%	6.4%	11.9%	0.4%	11.4%
Total Dividend + Tax	64,852	70,853	76,131	82,849	86,794
Dividend Per Share (INR)	24.3	25.8	27.9	31.0	33.0

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholders' Fund	6,17,790	6,89,820	6,05,596	6,76,931	7,61,898
Share Capital	11,440	11,440	10,880	10,880	10,880
Reserves & Surplus	6,06,350	6,78,380	5,94,716	6,66,051	7,51,018
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	0	0	0	0	0
Def. Tax Liab. / Assets (-)	-2,800	-3,330	-5,390	-5,390	-5,390
Total - Equity & Liab.	6,14,990	6,86,490	6,00,206	6,71,541	7,56,508
Net Fixed Assets	1,52,790	1,61,440	1,58,528	1,63,983	1,74,120
Gross Fixed Assets	1,89,660	2,10,730	2,23,252	2,47,502	2,76,963
Intangible Assets	37,640	36,520	37,270	37,270	37,270
Less: Depn. & Amort.	74,510	85,810	1,01,994	1,20,789	1,40,112
Capital WIP	0	0	0	0	0
Investments	19,140	64,530	61,110	61,110	61,110
Current Assets	5,76,600	6,02,180	5,24,934	6,06,817	6,95,115
Inventories	0	0	0	0	0
Sundry Debtors	1,43,590	1,59,700	1,71,486	1,86,186	2,04,432
Cash & Bank Balances	3,27,720	3,25,950	2,26,872	2,90,473	3,56,059
Loans & Advances	0	0	0	0	0
Other Current Assets	1,05,290	1,16,530	1,26,576	1,30,158	1,34,624
Current Liab. & Prov.	1,33,540	1,41,660	1,44,366	1,60,369	1,73,837
Current Liabilities	5,010	5,200	7,850	7,850	7,850
Provisions & Others	1,28,530	1,36,460	1,36,516	1,52,519	1,65,987
Net Current Assets	4,43,060	4,60,520	3,80,568	4,46,448	5,21,278
Total - Assets	6,14,990	6,86,490	6,00,206	6,71,541	7,56,508

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	1,87,440	1,99,560	2,01,141	2,11,143	2,35,219
Depn. & Amort.	14,590	17,030	19,014	18,795	19,324
Net Interest Exp. / Inc. (-)	-31,250	-30,540	-32,555	-24,119	-27,748
Inc (-) / Dec in WCap.	-11,120	-14,130	-22,626	-2,279	-9,245
Others	0	0	0	0	0
Taxes Paid	-51,550	-56,510	-44,536	-57,009	-63,509
Operating Cash Flow	1,08,110	1,15,410	1,20,437	1,46,532	1,54,041
Capex	-38,840	-25,680	-16,102	-24,250	-29,461
Free Cash Flow	69,270	89,730	1,04,336	1,22,282	1,24,580
Inc (-) / Dec in Investments	3,980	-45,390	3,420	0	0
Others	15,560	25,440	36,055	24,119	27,748
Investing Cash Flow	-19,300	-45,630	23,373	-131	-1,713
Inc / Dec (-) in Capital	5,720	0	-560	0	0
Dividend + Tax thereon	-70,460	-71,500	-2,42,328	-82,800	-86,742
Inc / Dec (-) in Loans	0	0	0	0	0
Others	-20	-50	0	0	0
Financing Cash Flow	-64,760	-71,550	-2,42,888	-82,800	-86,742
Inc / Dec (-) in Cash	24,050	-1,770	-99,078	63,601	65,586
Opening Cash Balance	3,03,670	3,27,720	3,25,950	2,26,872	2,90,473
Closing Cash Balance	3,27,720	3,25,950	2,26,872	2,90,473	3,56,059

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	21.6%	21.0%	22.6%	20.3%	20.6%
Asset Turnover (x)	1.1	1.0	1.1	1.2	1.1
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
RoE	23.2%	22.0%	24.5%	24.0%	23.9%

Key Ratios

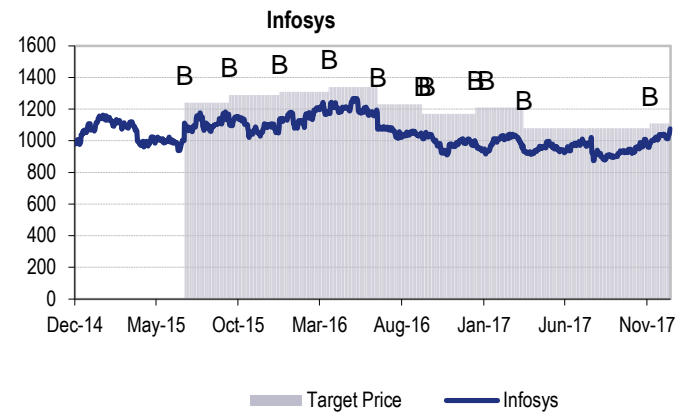
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	270.3	301.7	267.5	304.6	348.7
ROIC	45.7%	42.6%	43.1%	42.5%	45.2%
ROE	23.2%	22.0%	24.5%	24.0%	23.9%
Net Debt/Equity (x)	-0.5	-0.5	-0.4	-0.4	-0.5
P/E (x)	18.3	17.2	15.3	15.3	13.7
P/B (x)	4.0	3.6	4.0	3.5	3.1
EV/EBITDA (x)	12.4	11.4	11.8	10.4	9.2
EV/Sales (x)	3.4	3.1	3.1	2.8	2.5
Debtor days	84	85	89	89	89
Inventory days	0	0	0	0	0
Creditor days	3	3	4	3	3

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (INR)	% Chg.	FY19E EPS (INR)	% Chg.	Target Price	% Chg.
21-Jul-15	77.5				1,240	
12-Oct-15	76.4	-1.4			1,290	4.0
14-Jan-16	76.5	0.1			1,310	1.6
15-Apr-16	74.3	-2.9			1,340	2.3
15-Jul-16	69.9	-5.9	78.3		1,230	-8.2
6-Oct-16	67.8	-3.0			1,170	-4.9
14-Oct-16	68.0	0.3	77.9		1,170	0.0
13-Jan-17	68.0	0.0	77.8	-0.1	1,210	3.4
2-Feb-17	68.0	0.0			1,210	0.0
13-Apr-17	64.3	-5.4	71.6		1,080	-10.7
4-Dec-17	64.3	0.0	70.4	-1.7	1,110	2.8

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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Rating	Meaning
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Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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