

# Infosys Ltd.



# Infosys Ltd.

**Muted Growth owing to Seasonality, Eyes on Strategic Roadmap**

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 1,079	INR 1,187	10%	2,355,172	Accumulate	IT

## Result highlights

- Revenue in dollar terms stood at \$2,755 Mn, up 1% qoq and 8% yoy. Dollar revenue was below our estimates of \$2,770 Mn, primarily owing to furloughs, and shifting of deals to the later period.
- By Geography:** Europe outperformed with a 6.2% qoq growth, followed by North America at 0.7% qoq growth. The growth in the US region remained subdued due to seasonal weakness.
- By Industry:** Insurance led the pack with 7.3% qoq growth, followed by Energy & Utilities which grew 6.5% qoq. Growth in the Banking & Financial Service segment saw a decline of 1.6% largely due to reduction in budget allocation.
- By Services:** Business Process Management (BPM) led the growth pack with a 5.0% qoq growth, followed by Application Maintenance at 2.3% qoq growth and Consulting at 3.9% qoq growth.

## MARKET DATA

Shares outs (Mn)	2183
EquityCap (INR Mn)	10920
Mkt Cap (INR Mn)	2355172
52 Wk H/L (INR)	1089/862
Volume Avg (3m K)	4694.5
Face Value (INR)	5
Bloomberg Code	INFO IN

## KEY FINANCIALS

Particulars (INR Mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	624,410	684,850	704,383	755,941	823,207
EBITDA	170,780	186,050	189,907	205,453	226,267
PAT	134,909	143,775	163,486	164,328	180,799
EPS	59.0	62.9	71.5	71.9	79.1
OPM	25.0%	24.7%	24.2%	24.2%	24.4%
NPM	21.6%	21.0%	23.2%	21.7%	22.0%

Source: Company, KRChoksey Research

## Dollar revenue guidance in CC maintained within a range of 5.5%-6.5%

The management expects the dollar revenue to grow within a range of 5.5% to 6.5% for FY18 owing to increase in discretionary spending for verticals such as Retail & CPG and Manufacturing. In Retail and CPG, the company has witnessed a lot of consolidations that have undergone which ultimately rose spending for digital services especially in Cloud, AI, and Analytics.

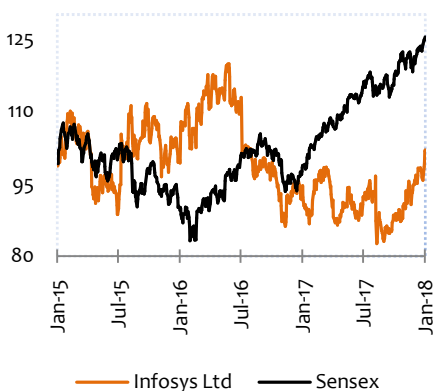
The company expects Insurance vertical to perform better which has witnessed a growth of 7.3% qoq in 3Q FY18 due to increase in deal size during the quarter. The company has bagged a Total Contract Value (TCV) of \$779 Mn by winning 8 deals from different buckets. We believe the revival of Retail & Insurance segments and increase in deal size would supplement the FY18 growth guidance that the company has maintained.

## The management stood positive on the margin front despite increase in cost of onsite hiring

Over the last couple of quarters the company has witnessed a decline in margin owing to increase in cost of onsite hiring, which is expected to worsen even further due to the proposal of HR 170 Bill. The operating margin for 3Q FY18 grew by 10bps qoq. The management has mentioned that the improvement in margin can be addressed by hiring trainees at a lower cost and re-skill them to meet the required standard. And Secondly, the company has been focusing on improving digital services and its platforms such as Nia, Panaya and Skava for converting new and large size deals, which ultimately would translate into increase in realization per client. The contribution from digital service stood more than 25% during 3Q FY18.

**Key Con-call Highlights:** (i) In 3Q FY18, the company's EPS increased by INR 6.29 to INR 22.4 due to Advance Pricing Agreement (APR) with the US Internal Revenue Service (IRS). The agreement is expected to bring the Effective Tax Rate down by 100 bps for the subsequent quarters (ii) Salil Parekh would be outlining the strategic roadmap in the month of April 2018 along with a capital allocation strategy for FY19 (iii) During 3Q FY18, the company increased compensation for senior management and variable pays for employees which led the operating margin stay flat (iv) The overall BFSI growth remained muted q-o-q on the back of furloughs, reduction in budget allocation, and shifting of large size deals to the later periods. However, it has partly been offset with the increase in IT spending in the Europe.

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	34592
NIFTY	10681

## SHARE HOLDING PATTERN (%)

Particulars	Dec 17	Sep 17	Jun 17
Promoters	12.9	12.75	12.75
FIIIs	35	34.08	37.53
DIIIs	21.76	22.15	20.19
Others	30.34	31.02	29.53
Total	100	100	100

6.3%

Revenue CAGR between FY 17 and FY 20E

7.9%

PAT CAGR between FY 17 and FY 20E

## ANALYST

Vaibhav Chowdhry, vaibhav.chowdhry@krchoksey.com, +91-22-6696 5571  
Pritesh Thakkar, pritesh.thakkar@krchoksey.com, +91-22-6696 5429

## KRChoksey Research

is also available on Bloomberg KRCS<GO>  
Thomson Reuters, Factset and Capital IQ

+91-22-6696 5555 / +91-22-6691 9576  
www.krchoksey.com

# Infosys Ltd.

## Valuation and view

The company has witnessed a significant deal wins in the quarter that would provide an incremental revenues inflows in the subsequent years especially in the Retail, Insurance and Manufacturing sectors. The company remained positive in improving its profitability despite the overall industry's been shifting from traditional IT services to a more business-driven coupled with ongoing political state of affairs. We believe that the newly appointed CEO would identify the opportunities in the highly emerging market and outline the defined roadmap for addressing the growing demand from its clients. However, we are yet to see the company's proposition for re-shaping and heading it to the right trajectory. **We are giving an "Accumulate" rating on the stock and we are assigning a multiple of 15X to its FY20E EPS of INR 79.1 to arrive at a target price of INR 1,187, an upside of 10% compared to CMP of 1079.**

## Q3 FY18 Result Snapshot

### Exhibit 1 Quarterly Income Statement

INR Mn	Q3 FY18	Q2 FY17	Q-o-Q change %	Q3 FY17	Y-o-Y change %	Q3 FY18 estimates	Deviation %
Net Sales (US\$ Mn)	2,755	2,728	1.0%	2,551	8.0%	2,770	(0.5%)
Net Sales	177,940	175,670	1.3%	172,730	3.0%	178,084	(0.1%)
Less:							
Employees Remuneration & Benefits	114,500	112,270	2.0%	108,400	5.6%	115,029	(0.5%)
Administrative & Other Expenses	20,250	20,940	(3.3%)	20,990	(3.5%)	20,123	0.6%
Total Operating Expenditure	134,750	133,210	1.2%	129,390	4.1%	135,152	(0.3%)
Operating Profit	43,190	42,460	1.7%	43,340	(0.3%)	42,931	0.6%
Less: Depreciation	4,980	4,560	9.2%	4,330	15.0%	4,452	
Add: Other income	9,620	8,830	8.9%	8,200	17.3%	8,951	7.5%
Profit Before Tax	52,785	51,290	2.9%	51,540	2.4%	51,857	1.8%
Adjusted Profits	52,810	51,290	3.0%	51,540	2.5%	51,882	
Less: Total Tax	1,520	14,030	(89.2%)	14,460	(89.5%)	14,527	
PAT	51,265	37,260	37.6%	37,080	38.3%	37,330	37.3%
Adjusted PAT	51,290	37,260	37.7%	37,080	38.3%	37,355	37.3%
Reported Diluted EPS (Rs.)	22.4	16.3	37.6%	16.2	38.3%	16.3	
Adjusted Diluted EPS (Rs.)	22.4	16.3	37.7%	16	38.3%	16.3	37.3%
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	24.3%	24.2%	10	25.1%	(82)	24.9%	(67)
EBIDTA Margin	27.1%	26.8%	30	27.6%	(53)	27.6%	(52)
NPM	28.8%	21.2%	760	21.5%	734	21.4%	743
Adjusted NPM	28.8%	21.2%	761	21.5%	736	21.4%	743
Effective Tax Rate %	2.9%	27.4%	(2447)	28.1%	(2518)	28.0%	(2513)
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	64.3%	63.9%	44	62.8%	159	63.2%	119
SG&A/Net sales	11.4%	11.9%	(54)	12.2%	(77)	11.9%	(52)

Source: Company, KRChoksey Research

•The Tax rate for the quarter stood 2.9% due to Advance Pricing Agreement with the US Internal Revenue Service (IRS). The agreement is expected to bring the Effective Tax Rate down by 100 bps for the subsequent quarters

•Client additions stood at 79 in Q3 FY18 with major additions in the \$10 Mn+ category

•Attrition stood at 18.7%, a decline of 270 bps mainly due to increase in compensation and high variable pay. Utilization was recorded at 84.9%

## ANALYST

Vaibhav Chowdhry, [vaibhav.chowdhry@krchoksey.com](mailto:vaibhav.chowdhry@krchoksey.com), +91-22-6696 5571  
Pritesh Thakkar, [pritesh.thakkar@krchoksey.com](mailto:pritesh.thakkar@krchoksey.com), +91-22-6696 5429

## KRChoksey Research

is also available on Bloomberg KRCS<GO>  
Thomson Reuters, Factset and Capital IQ

+91-22-6696 5555 / +91-22-6691 9576

[www.krchoksey.com](http://www.krchoksey.com)

# Infosys Ltd.

## Exhibit 2–Profit & Loss Statement

INR Mn	FY16	FY17	FY18E	FY19E	FY20E
<b>Net Sales</b>	<b>624,410</b>	<b>684,850</b>	<b>704,383</b>	<b>755,941</b>	<b>823,207</b>
Sales Growth%	17.1%	9.7%	2.9%	7.3%	8.9%
<b>Total Revenue</b>	<b>624,410</b>	<b>684,850</b>	<b>704,383</b>	<b>755,941</b>	<b>823,207</b>
<b>Less:</b>					
Employees Cost	390,990	432,530	452,617	493,220	537,669
SG&A	77,230	83,300	81,119	79,947	84,790
<b>Total Operating Expenditure</b>	<b>468,220</b>	<b>515,830</b>	<b>533,736</b>	<b>573,167</b>	<b>622,459</b>
<b>EBITDA</b>	<b>170,780</b>	<b>186,050</b>	<b>189,907</b>	<b>205,453</b>	<b>226,267</b>
EBITDA Growth%	14.6%	8.9%	2.1%	8.2%	10.1%
Less: Depreciation	14,590	17,030	19,260	22,678	25,519
<b>Operating Profit</b>	<b>156,190</b>	<b>169,020</b>	<b>170,647</b>	<b>182,774</b>	<b>200,748</b>
Operating Profit Growth%	12.9%	8.2%	1.0%	7.1%	9.8%
Non-operating Income	31,239	30,735	36,670	42,333	46,923
<b>Profit Before Tax</b>	<b>187,429</b>	<b>199,755</b>	<b>207,316</b>	<b>225,107</b>	<b>247,671</b>
Tax	52,520	55,980	43,831	60,779	66,871
<b>Net Profit</b>	<b>134,909</b>	<b>143,775</b>	<b>163,486</b>	<b>164,328</b>	<b>180,799</b>
<b>Adjusted Profit</b>	<b>134,909</b>	<b>143,775</b>	<b>163,486</b>	<b>164,328</b>	<b>180,799</b>
<b>Reported Diluted EPS INR</b>	<b>59.0</b>	<b>62.9</b>	<b>71.5</b>	<b>71.9</b>	<b>79.1</b>
<b>Diluted EPS Growth%</b>	<b>9.4%</b>	<b>6.6%</b>	<b>13.7%</b>	<b>0.5%</b>	<b>10.0%</b>
<b>Adjusted EPS</b>	<b>59.0</b>	<b>62.9</b>	<b>71.5</b>	<b>71.9</b>	<b>79.1</b>
<b>Adjusted EPS Growth%</b>	<b>9.4%</b>	<b>6.6%</b>	<b>13.7%</b>	<b>0.5%</b>	<b>10.0%</b>

Source: Company, KRChoksey Research

## Exhibit 3 –Balance Sheet

INR Mn	FY16	FY17	FY18E	FY19E	FY20E
<b>Liabilities</b>					
Equity Capital	11,440	11,440	11,440	11,440	11,440
Reserves & Surplus	566,820	678,380	763,845	849,751	944,267
<b>Equity</b>	<b>578,260</b>	<b>689,820</b>	<b>775,285</b>	<b>861,191</b>	<b>955,707</b>
<b>Net Worth</b>	<b>578,260</b>	<b>689,820</b>	<b>775,285</b>	<b>861,191</b>	<b>955,707</b>
Net Deferred tax liability/(Asset)	1,260	3,600	3,600	3,600	3,600
<b>Total Loans</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Capital Employed</b>	<b>579,520</b>	<b>693,420</b>	<b>778,885</b>	<b>864,791</b>	<b>959,307</b>
<b>Assets</b>					
Gross Block	160,900	183,320	198,320	213,320	228,320
Less: Depreciation	74,530	52,942	72,202	94,880	120,399
<b>Net Block</b>	<b>86,370</b>	<b>130,378</b>	<b>126,118</b>	<b>118,440</b>	<b>107,921</b>
Capital WIP & Intangibles	55,030	57,930	54,846	55,619	56,628
<b>Investments</b>	<b>18,170</b>	<b>64,820</b>	<b>64,820</b>	<b>64,820</b>	<b>64,820</b>
Others-Assets	74,310	65,650	24,107	33,428	36,779
<b>Current Assets</b>					
Sundry Debtors	113,300	123,220	125,438	134,620	146,598
Cash and Bank Balance	302,630	179,208	385,056	462,087	552,028
Loans and Advances	73,520	105,900	123,267	130,778	141,592
<b>Total Current Assets</b>	<b>491,550</b>	<b>514,772</b>	<b>651,371</b>	<b>746,383</b>	<b>860,798</b>
<b>Less: Current Liabilities &amp; Provisions</b>					
Sundry Creditors	3,860	3,670	2,925	3,141	3,411
Provisions	18,530	4,050	3,506	4,862	5,350
Other Current Liabilities	123,520	132,410	135,946	145,897	158,879
<b>Total Current Liabilities&amp; Provisions</b>	<b>145,910</b>	<b>140,130</b>	<b>142,377</b>	<b>153,900</b>	<b>167,639</b>
<b>Capital Applied</b>	<b>579,520</b>	<b>693,420</b>	<b>778,885</b>	<b>864,791</b>	<b>959,307</b>

Source: Company, KRChoksey Research

### ANALYST

Vaibhav Chowdhry, [vaibhav.chowdhry@krchoksey.com](mailto:vaibhav.chowdhry@krchoksey.com), +91-22-6696 5571  
Pritesh Thakkar, [pritesht.thakkar@krchoksey.com](mailto:pritesht.thakkar@krchoksey.com), +91-22-6696 5429

### KRChoksey Research

is also available on Bloomberg KRCS<GO>  
Thomson Reuters, Factset and Capital IQ

+91-22-6696 5555 / +91-22-6691 9576  
[www.krchoksey.com](http://www.krchoksey.com)

Infosys Ltd.

Exhibit 4 - Ratio Analysis

INR Mn	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin(%)	25.0%	24.7%	24.2%	24.2%	24.4%
Tax/PBT(%)	28.0%	28.0%	21.1%	27.0%	27.0%
Net Profit Margin(%)	21.6%	21.0%	23.2%	21.7%	22.0%
RoE(%)	22.7%	21.5%	21.2%	19.2%	19.0%
RoCE(%)	22.6%	21.4%	21.1%	19.1%	18.9%
Current Ratio(x)	3.4x	3.7x	4.6x	4.8x	5.1x
Dividend Payout(%)	47.9%	47.7%	47.7%	47.7%	47.7%
Book Value Per Share(Rs.)	253.0	301.8	339.2	376.8	418.1
Financial Leverage Ratios					
Debt/Equity(x)	0.0x	0.0x	0.0x	0.0x	0.0x
Growth Indicators%					
Growth in Gross Block(%)	14.1%	13.9%	8.2%	7.6%	7.0%
Sales Growth(%)	17.1%	9.7%	2.9%	7.3%	8.9%
EBITDA Growth(%)	12.9%	8.2%	1.0%	7.1%	9.8%
Net Profit Growth(%)	9.4%	6.6%	13.7%	0.5%	10.0%
Diluted EPS Growth(%)	9.4%	6.6%	13.7%	0.5%	10.0%
Turnover Ratios					
Debtors (Days of net sales)	66	66	65	65	65

Source: Company, KRChoksey Research

Exhibit 5 –Free Cash Flow Analysis

INR Mn	FY16	FY17	FY18E	FY19E	FY20E
EBITA	156,190	169,020	170,647	182,774	200,748
Less: Adjusted Taxes	43,766	47,367	36,078	49,349	54,202
NOPLAT	112,424	121,653	134,569	133,425	146,546
Plus: Depreciation	14,590	17,030	19,260	22,678	25,519
Less: Increase in Working Capital	10,184	110,439	(57,158)	7,868	11,558
Operating Cash flow	116,829	28,244	210,987	148,236	160,508
Less: Net Capex	19,310	65,088	11,916	15,773	16,009
Less: Increase in Net Other Assets	6,660	32,194	(55,491)	8,944	3,873
Total FCF	90,859	(69,038)	254,561	123,519	140,626

Source: Company, KRChoksey Research

Infosys Ltd.

Infosys Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
15-Jan-18	1079	1,187	ACCUMULATE	Buy	More than 15%
14-July-17	972	1,158	BUY	Accumulate	5% – 15%
13-Apr-17	931	1,060	ACCUMULATE	Hold	0 – 5%
13-Jan-17	971	1,074	ACCUMULATE	Reduce	-5% – 0
18-Oct-16	1,022	1,123	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

We, Vaibhav Chowdhry (B.Com, MBA), research analyst and Pritesh Thakkar (MBA, B.Com), research associate, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and MCX Stock Exchange Limited. KRCSSPL is a registered Research Entity vides SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein, .In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months

KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Vaibhav Chowdhry (B.Com, MBA), research analyst and Pritesh Thakkar (MBA, B.Com), research associate, of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Vaibhav Chowdhry (B.Com, MBA), research analyst and Pritesh Thakkar (MBA, B.Com), research associate, do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to [research.insti@krchoksey.com](mailto:research.insti@krchoksey.com)  
Visit us at [www.krchoksey.com](http://www.krchoksey.com)  
Kisan Ratilal Choksey Shares and Securities Pvt. Ltd  
Registered Office:  
1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.  
Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.  
Corporate Office:  
ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.  
Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.