

## Institutional Equity Research

## Infosys

IT | India

3QFY18 Result Update | January 15, 2018

CMP* (Rs)	1078
Upside/ (Downside) (%)	15
Bloomberg Ticker	INFO IN
Market Cap. (Rs bn)	2,355
Free Float (%)	87
Shares O/S (mn)	2,184

BUY 

Target Price: Rs1,240

## Improved Outlook, Deal Pipeline

Infosys has delivered a subdued performance with its revenue growing by 1% QoQ (0.8% QoQ in CC terms) to US\$2,755mn in 3QFY18, which is a seasonally weak quarter. Its EBIT margin expanded by 10bps QoQ, owing to improved operational efficiency and higher utilisation. While volume grew by a decent 1.6% QoQ, blended billing rate declined by 0.7% QoQ. From vertical perspective, BFSI continued to remain under stress with revenue growing by a meagre 0.1% QoQ. However, within BFSI, the Insurance sub-vertical clocked a healthy 7.3% QoQ growth in USD revenue, while pressure is clearly seen more on the BFS sub-vertical, which declined by 2.6% QoQ. On a positive note, revenue from Retail & CPG grew by 3.2% QoQ, while revenue from Transport & Logistics increased by 6% QoQ. Energy & Utilities vertical also grew by a healthy 6.5% QoQ, marking the third successive quarter of >6% growth. On the flip side, revenue from Life Sciences and Healthcare verticals declined by 3.2% and 4.1%, respectively. The Management reiterated its CC revenue growth guidance at 5.5-6.5% for FY18E. Geo-wise, North America grew by 0.7% QoQ, while Europe clocked a strong 6.2% QoQ growth in USD terms.

## IT Budget Outlook Positive

Despite a subdued quarterly performance, the Management has alluded to an improvement in IT spending environment in CY18. Infosys expects IT budgets in the key BFSI vertical to improve following rise in discretionary spend especially owing to initiatives like Digitisation, AI and Automation. In Retail and CPG vertical, new opportunity conversions have been strong particularly in CPG. **On an industry-wide basis, Infosys believes the deal pipeline continues to remain strong, though decision making cycle still remains elongated, ranging from 6-9 months.**

From other operating metric perspective, Infosys added a gross of >12,600 employees in 3QFY18, while the net headcount addition stood at 3,251, taking the total employee base past the 200,000-mark (201,691). Employee utilisation touched its highest-ever levels, with ex-trainee utilisation rising to 84.9% (84.7%) and cum-trainee utilisation rising to 82.1% (81.8%). Impressive rise in clients across buckets from US\$1mn-US\$100mn is an extremely positive factor, which suggests steady improvement in revenue visibility.

## Outlook &amp; Valuation

A new CEO, Mr. Salil Parekh at the helm, having a strong track record in the IT industry with prior work experience at Capgemini on its Group Management Board, provides confidence on Infosys' growth, going forward. Notably, strong client addition despite major upheaval at senior management level is a major positive, in our view. Further, the Management's positive outlook on IT budgets, particularly in BFSI vertical is another heartening factor. Potential improvement in the US economy, decent underlying growth in key verticals and return of cash to shareholders are factors, which we believe will prevent a major correction in stock price. **Rolling over our estimates to FY20E, we retain our BUY recommendation on the stock with a revised Target Price of Rs1,240 (from Rs1,035 earlier).**

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	7.5	15.7	10.6
Relative to Nifty	2.7	10.7	(16.6)

Shareholding Pattern (%)	27-Dec'17	Dec'17
Promoter	12.9	12.9
Public	87.1	87.1

## 1 Year Stock Price Performance



Note: \* CMP as on January 12, 2018

Key Financials (Rs mn)	FY17	FY18E	FY19E	FY20E
Net Sales	684,850	705,025	768,511	850,295
EBIT	169,020	169,938	182,626	205,514
RPAT	143,540	162,509	162,268	177,193
Diluted EPS (Rs)	62.8	71.1	71.0	77.5
P/E (x)	17.2	15.2	15.2	13.9
EV / EBITDA (x)	12.0	11.7	10.7	9.4
RoE (%)	22.0	22.8	21.4	22.0

Source: Company, RSec Research

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### Key Conference Call Takeaways

- ▶ Digital contributed >25% to Infosys' revenue in 3QFY18, and the IT major will start publishing more details on this metric, going forward,
- ▶ Infosys won US\$779mn worth of large deal TCV during the quarter.
- ▶ Effective tax rate is likely to be 100bps lower in each year until CY21 following an agreement with the US IRS.
- ▶ As per an internal preliminary assessment, the IT major doesnot envisage any major impact of US tax reform.
- ▶ Infosys' BFSI vertical was affected in 3QFY18 owing to extended furloughs, budget cuts by some large accounts and delay in implementation of some new deals won earlier.
- ▶ Infosys saw a 0.9% QoQ decline in CC realisation in 3QFY18.

### Risks to the View

- ▶ Event-specific risks could impact IT budgets, cut discretionary spend and delay new deals.
- ▶ Cost escalation can lead to execution risks and margin pressure.
- ▶ Cannibalisation of existing revenue particularly on ADM and ERP side owing to strategic shift to the Cloud architecture.
- ▶ Currency risks.

#### Exhibit 1: Quarterly Performance (Consolidated, Rs mn)

Particulars	3QFY18	2QFY18	QoQ (%)	3QFY17	YoY (%)
<b>Net Revenues (US\$ mn)</b>	<b>2,755</b>	<b>2,728</b>	<b>1.0</b>	<b>2,551</b>	<b>8.0</b>
<b>Net Revenues</b>	<b>177,940</b>	<b>175,670</b>	<b>1.3</b>	<b>172,730</b>	<b>3.0</b>
Employee Expenses	98,690	96,040	2.8	94,200	4.8
SG&A and Other Operating Expenses	31,080	32,610	(4.7)	30,860	0.7
<b>EBITDA</b>	<b>48,170</b>	<b>47,020</b>	<b>2.4</b>	<b>47,670</b>	<b>1.0</b>
Depreciation	4,980	4,560	9.2	4,330	15.0
<b>EBIT</b>	<b>43,190</b>	<b>42,460</b>	<b>1.7</b>	<b>43,340</b>	<b>(0.3)</b>
Other Income	9,620	8,830	8.9	8,200	17.3
<b>PBT</b>	<b>52,810</b>	<b>51,290</b>	<b>3.0</b>	<b>51,540</b>	<b>2.5</b>
Tax	1,520	14,030	(89.2)	14,460	(89.5)
APAT	51,290	37,260	37.7	37,080	38.3
<b>RPAT</b>	<b>51,290</b>	<b>37,260</b>	<b>37.7</b>	<b>37,080</b>	<b>38.3</b>

Source: Company, RSec Research

#### Exhibit 2: Margin Break Up

Particulars	3QFY18	2QFY18	QoQ (bps)	3QFY17	YoY (bps)
Employee Expenses % Net Revenues	55.5	54.7	79	54.5	93
SG&A and Other Expenses % Net Revenues	17.5	18.6	(110)	17.9	(40)
EBITDA Margin (%)	27.1	26.8	30	27.6	(53)
EBIT Margin (%)	24.3	24.2	10	25.1	(82)
Tax Rate (%)	2.9	27.4	(2,448)	28.1	(2,518)
APAT Margin (%)	28.8	21.2	761	21.5	736

Source: Company, RSec Research

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**Exhibit 3: 3QFY18 results snapshot, comparison with RSec estimates**

(3QFY18)	Actuals	RSec estimates	% variation from RSec estimates
Revenue (US\$ mn)	2,755	2,769	(0.5)
Revenue (Rs mn)	177,940	179,210	(0.7)
EBIT (Rs mn)	43,190	44,263	(2.4)
EBIT margin (%)	24.3	24.7	(43 bps)
Net profit (Rs mn)	51,290	38,252	34.1

Source: Company, RSec Research

**Exhibit 4: Earlier, revised estimates**

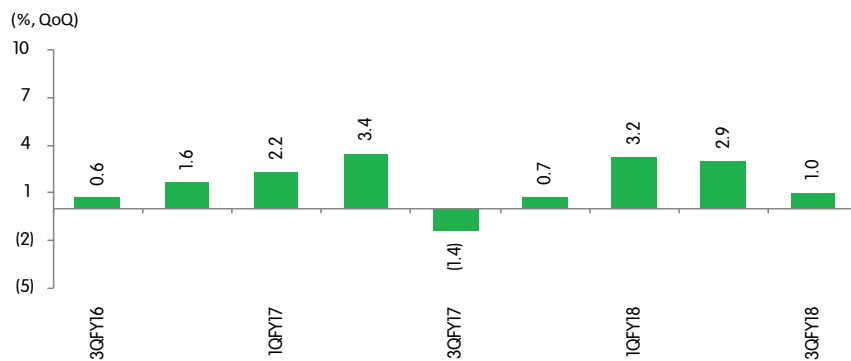
Particulars	Earlier estimates	Revised estimates	% change	Earlier estimates	Revised estimates	% change
		FY18E			FY19E	
Revenue (US\$ mn)	10,927	10,913	(0.1)	11,824	11,823	(0.0)
Revenue (Rs mn)	706,309	705,025	(0.2)	768,570	768,511	(0.0)
EBIT (Rs mn)	172,904	169,938	(1.7)	191,167	182,626	(4.5)
EBIT margin (%)	24.5	24.1	(38 bps)	24.9	23.8	(111 bps)
EPS (Rs)	65.6	71.1	8.3	71.1	71.0	(0.2)

Source: RSec Research

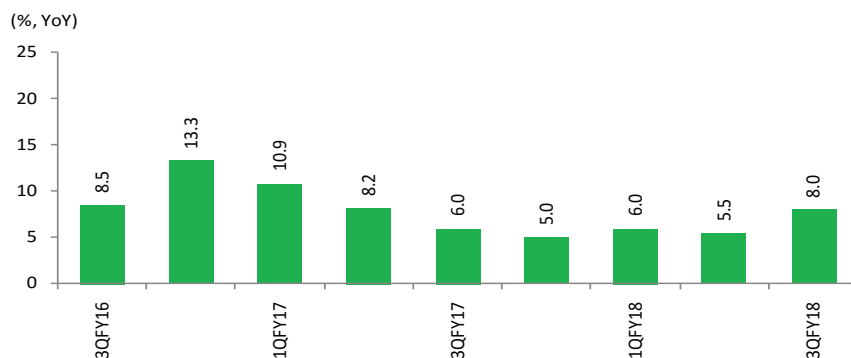
**Exhibit 5: Key Assumptions**

Particulars	FY17	FY18E	FY19E	FY20E
ITS volume growth (%)	10.1	5.9	7.9	10.6
ITS pricing change (%)	(2.6)	1.3	(0.0)	(0.3)
USD revenue growth (%)	7.4	6.9	8.3	10.6
USD/INR rate	67.1	64.6	65.0	65.0
EBIT margin (%)	24.7	24.1	23.8	24.2

Source: Company, RSec Research

**Exhibit 6: QoQ USD revenue growth trend**


Source: Company, RSec Research

**Exhibit 7: YoY USD revenue growth trend**


Source: Company, RSec Research

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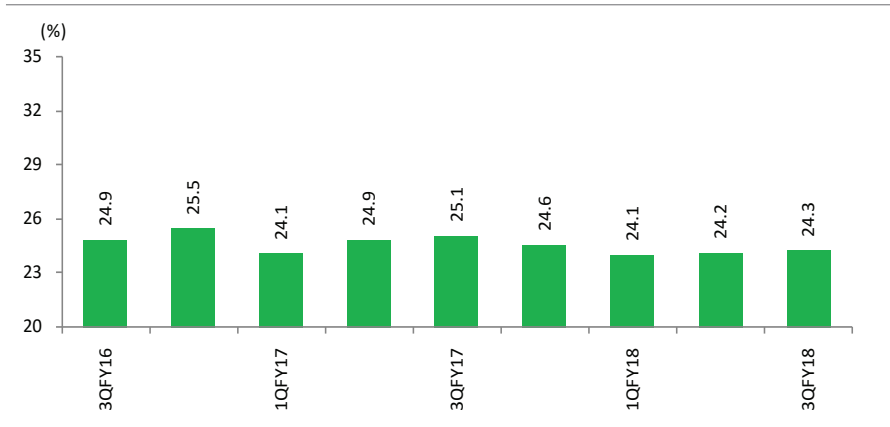
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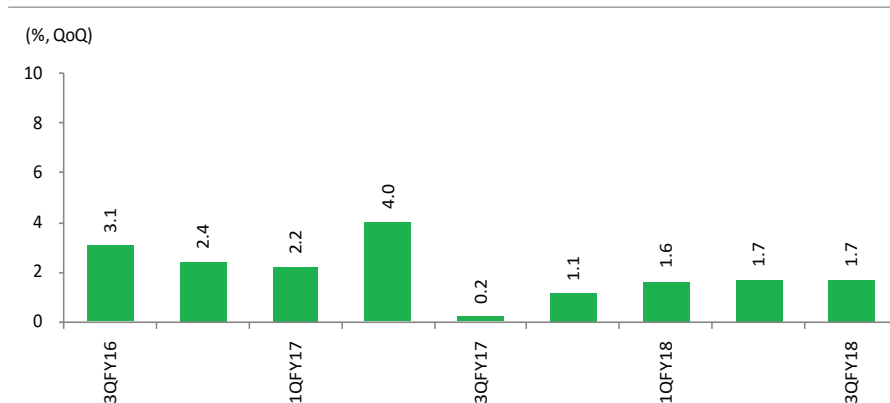
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**Exhibit 8: EBIT margin trend**


Source: Company, RSec Research

**Exhibit 9: Volume growth trend**


Source: Company, RSec Research

**Exhibit 10: Vertical break-up**

(% of revenue)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
<b>BFSI</b>	<b>32.8</b>	<b>33.1</b>	<b>33.3</b>	<b>33.5</b>	<b>33.3</b>	<b>33.4</b>	<b>33.1</b>
Insurance	5.6	5.7	6.1	6.1	6.2	6.4	6.8
Banking and Financial Services	27.2	27.4	27.2	27.4	27.1	27.0	26.3
<b>Manufacturing</b>	<b>22.8</b>	<b>22.5</b>	<b>22.5</b>	<b>22.4</b>	<b>22.2</b>	<b>22.0</b>	<b>21.8</b>
<b>Retail, Logistics, CPG &amp; Life Sciences</b>	<b>24.2</b>	<b>23.5</b>	<b>23.5</b>	<b>22.7</b>	<b>22.7</b>	<b>22.6</b>	<b>22.7</b>
Retail & CPG	15.5	14.9	14.6	14.1	14.2	13.8	14.1
Transport & Logistics	1.9	1.9	2.0	2.0	1.9	2.0	2.1
Life Sciences	4.7	4.5	4.6	4.6	4.6	4.8	4.6
Healthcare	2.1	2.2	2.3	2.0	2.0	2.0	1.9
<b>Energy &amp; Utilities, Comm. &amp; Services</b>	<b>20.2</b>	<b>20.9</b>	<b>20.7</b>	<b>21.4</b>	<b>21.8</b>	<b>22.0</b>	<b>22.4</b>
Energy & Utilities	4.7	4.8	5.0	5.0	5.2	5.5	5.8
Communication & Services	9.4	9.4	9.1	9.9	10.4	10.4	10.5
Others	6.1	6.7	6.6	6.5	6.2	6.1	6.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, RSec Research

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**Exhibit 11: Vertical growth**

(QoQ, %)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
<b>BFSI</b>	<b>2.2</b>	<b>4.4</b>	<b>(0.8)</b>	<b>1.3</b>	<b>2.6</b>	<b>3.2</b>	<b>0.1</b>
Insurance	6.0	5.3	5.5	0.7	4.9	6.2	7.3
Banking and Financial Services	1.5	4.2	(2.1)	1.4	2.1	2.5	(1.6)
<b>Manufacturing</b>	<b>2.7</b>	<b>2.1</b>	<b>(1.4)</b>	<b>0.3</b>	<b>2.3</b>	<b>2.0</b>	<b>0.1</b>
<b>Retail, Logistics, CPG &amp; Life Sciences</b>	<b>1.0</b>	<b>0.4</b>	<b>(1.4)</b>	<b>(2.7)</b>	<b>3.2</b>	<b>2.5</b>	<b>1.4</b>
Retail & CPG	5.7	(0.6)	(3.4)	(2.7)	3.9	0.0	3.2
Transport & Logistics	7.9	3.4	3.8	0.7	(2.0)	8.3	6.0
Life Sciences	(15.7)	(1.0)	0.8	0.7	3.2	7.4	(3.2)
Healthcare	7.4	8.4	3.1	(12.4)	3.2	2.9	(4.1)
<b>Energy &amp; Utilities, Comm. &amp; Services</b>	<b>3.3</b>	<b>7.0</b>	<b>(2.3)</b>	<b>4.1</b>	<b>5.1</b>	<b>3.8</b>	<b>2.8</b>
Energy & Utilities	(7.6)	5.6	2.7	0.7	7.3	8.8	6.5
Communication & Services	11.8	3.4	(4.5)	9.6	8.4	2.9	2.0
Others	0.6	13.6	(2.9)	(0.8)	(1.6)	1.2	1.0
<b>Total</b>	<b>2.2</b>	<b>3.4</b>	<b>(1.4)</b>	<b>0.7</b>	<b>3.2</b>	<b>2.9</b>	<b>1.0</b>

Source: Company, RSec Research

**Exhibit 12: Service line break-up**

(% of revenue)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
<b>Business Operations Services</b>	<b>62.4</b>	<b>62.8</b>	<b>62.0</b>	<b>61.9</b>	<b>62.0</b>	<b>62.3</b>	<b>61.9</b>
Application Development	14.4	15.6	15.5	15.3	15.4	15.6	15.4
Application Maintenance	19.5	18.1	17.0	16.8	16.7	16.0	16.2
Infrastructure Management	8.3	8.4	8.6	8.5	8.4	9.0	8.8
Testing Services	9.1	9.2	9.1	9.0	9.3	9.4	9.4
Business Process Management	4.9	4.9	4.9	5.1	5.0	5.1	5.3
Product Engineering Services	3.5	3.7	3.9	4.0	4.1	4.1	4.0
Others	2.7	2.9	3.0	3.2	3.1	3.1	2.8
<b>Consulting &amp; Systems Integration</b>	<b>32.1</b>	<b>32.1</b>	<b>32.4</b>	<b>32.6</b>	<b>32.6</b>	<b>32.5</b>	<b>32.8</b>
<b>Products, Platforms &amp; Solutions</b>	<b>5.5</b>	<b>5.1</b>	<b>5.6</b>	<b>5.5</b>	<b>5.4</b>	<b>5.2</b>	<b>5.3</b>
Product Revenues	3.0	3.0	3.2	3.1			
BPM Platforms	2.1	1.7	1.9	1.9			
Others	0.4	0.4	0.5	0.5			
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, RSec Research

**Exhibit 13: Service line growth**

(QoQ, %)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
<b>Business Operations Services</b>	<b>3.6</b>	<b>4.1</b>	<b>(2.6)</b>	<b>0.5</b>	<b>3.4</b>	<b>3.4</b>	<b>0.3</b>
Application Development	7.5	12.1	(2.0)	(0.6)	3.9	4.2	(0.3)
Application Maintenance	1.2	(4.0)	(7.4)	(0.5)	2.6	(1.4)	2.3
Infrastructure Management	6.1	4.7	1.0	(0.5)	2.0	10.3	(1.3)
Testing Services	3.4	4.6	(2.5)	(0.4)	6.6	4.0	1.0
Business Process Management	0.2	3.4	(1.4)	4.8	1.2	5.0	5.0
Product Engineering Services	5.3	9.3	3.9	3.3	5.8	2.9	(1.5)
Others	(1.4)	11.1	2.0	7.4	(0.0)	2.9	(8.8)
<b>Consulting &amp; Systems Integration</b>	<b>(1.1)</b>	<b>3.4</b>	<b>(0.5)</b>	<b>1.3</b>	<b>3.2</b>	<b>2.6</b>	<b>1.9</b>
<b>Products, Platforms &amp; Solutions</b>	<b>8.1</b>	<b>(4.1)</b>	<b>8.3</b>	<b>(1.1)</b>	<b>1.3</b>	<b>(0.9)</b>	<b>2.9</b>
Product Revenues	(4.1)	3.4	5.2	(2.4)			
BPM Platforms	26.3	(16.3)	10.2	0.7			
Others	36.3	3.4	23.3	0.7			
<b>Total</b>	<b>2.2</b>	<b>3.4</b>	<b>(1.4)</b>	<b>0.7</b>	<b>3.2</b>	<b>2.9</b>	<b>1.0</b>

Source: Company, RSec Research

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**Exhibit 14: Geographic break-up**

(% of revenue)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
North America	62.0	61.5	62.0	62.3	61.1	60.6	60.4
Europe	23.0	22.5	22.2	22.1	22.4	23.2	24.4
India	2.7	3.4	3.4	3.2	3.6	3.3	3.0
Rest of the World	12.3	12.6	12.4	12.4	12.9	12.9	12.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, RSec Research

**Exhibit 15: Geographic growth**

(QoQ, %)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
North America	2.4	2.6	(0.6)	1.2	1.2	2.1	0.7
Europe	0.5	1.2	(2.7)	0.3	4.6	6.6	6.2
India	(8.0)	30.3	(1.4)	(5.2)	16.1	(5.7)	(8.2)
Rest of the World	7.5	6.0	(3.0)	0.7	7.4	2.9	(4.5)
<b>Total</b>	<b>2.2</b>	<b>3.4</b>	<b>(1.4)</b>	<b>0.7</b>	<b>3.2</b>	<b>2.9</b>	<b>1.0</b>

Source: Company, RSec Research

**Exhibit 16: Onsite-offshore contribution (IT services + consulting)**

(% of revenue)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
Onsite revenue	57.0	57.0	56.5	56.7	56.6	55.6	54.8
Offshore revenue	43.0	43.0	43.5	43.3	43.4	44.4	45.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, RSec Research

**Exhibit 17: Onsite-offshore growth (IT services + consulting)**

(QoQ, %)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
Onsite revenue	2.8	4.3	(2.9)	1.3	3.2	1.2	(0.5)
Offshore revenue	0.9	4.1	(0.7)	0.4	3.8	5.3	2.8
<b>Total</b>	<b>2.0</b>	<b>4.2</b>	<b>(2.0)</b>	<b>0.9</b>	<b>3.5</b>	<b>3.0</b>	<b>1.0</b>

Source: Company, RSec Research

**Exhibit 18: Headcount, attrition, utilisation data**

(Nos.)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
<b>Total headcount</b>	<b>197,050</b>	<b>199,829</b>	<b>199,763</b>	<b>200,364</b>	<b>198,553</b>	<b>198,440</b>	<b>201,691</b>
Gross additions	13,268	12,717	9,120	9,130	8,645	10,514	12,622
Lateral additions	5,260	5,752	4,000	3,967	N.A.	N.A.	N.A.
<b>Net additions</b>	<b>3,006</b>	<b>2,779</b>	<b>(66)</b>	<b>601</b>	<b>(1,811)</b>	<b>(113)</b>	<b>3,251</b>
Consolidated LTM attrition (%)	18.5	18.6	18.9	18.9	19.2	19.6	18.7
Quarterly annualised attrition (%)	20.8	19.9	18.4	17.0	21.1	21.4	18.6
Utilisation including trainees (%)	76.5	77.7	77.8	78.2	80.2	81.8	82.1
Utilisation excluding trainees (%)	80.5	82.5	81.9	82.0	84.0	84.7	84.9

Source: Company, RSec Research

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**Profit & Loss Statement**

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
<b>Net Revenues (US\$ mn)</b>	<b>10,208</b>	<b>10,913</b>	<b>11,823</b>	<b>13,081</b>
Growth (%)	7.4	6.9	8.3	10.6
<b>Net Revenues</b>	<b>684,850</b>	<b>705,025</b>	<b>768,511</b>	<b>850,295</b>
Growth (%)	9.7	2.9	9.0	10.6
Employee Expenses	376,590	389,001	433,824	482,820
SG&A and Other Operating Expenses	122,210	126,811	131,600	140,248
<b>EBITDA</b>	<b>186,050</b>	<b>189,213</b>	<b>203,086</b>	<b>227,227</b>
EBITDA (%)	27.2	26.8	26.4	26.7
EBITDA Growth (%)	8.9	1.7	7.3	11.9
Depreciation	17,030	19,275	20,460	21,713
<b>EBIT</b>	<b>169,020</b>	<b>169,938</b>	<b>182,626</b>	<b>205,514</b>
Other Income	30,800	36,818	40,070	37,627
<b>PBT</b>	<b>199,820</b>	<b>206,756</b>	<b>222,696</b>	<b>243,141</b>
Tax (incl deferred)	55,980	43,947	60,128	65,648
Minority Interest and associate profit	(300)	(300)	(300)	(300)
<b>RPAT</b>	<b>143,540</b>	<b>162,509</b>	<b>162,268</b>	<b>177,193</b>
RPAT Growth (%)	6.4	13.2	(0.1)	9.2
<b>EPS</b>	<b>62.8</b>	<b>71.1</b>	<b>71.0</b>	<b>77.5</b>
EPS Growth (%)	6.4	13.2	(0.1)	9.2

**Balance Sheet**

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
<b>SOURCES OF FUNDS</b>				
Share Capital - Equity	11,440	11,440	11,440	11,440
Reserves	678,380	723,883	769,318	818,932
Total Shareholders' Funds	689,820	735,323	780,758	830,372
Deferred Tax Liabilities	2,070	2,070	2,070	2,070
Long Term Provisions & Others	1,530	1,530	1,530	1,530
Trade Payables	3,670	1,413	1,549	1,707
Other Current Liabilities & Provns	136,460	131,325	152,082	167,238
<b>Total Current Liabilities</b>	<b>140,130</b>	<b>132,738</b>	<b>153,631</b>	<b>168,945</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>833,550</b>	<b>871,661</b>	<b>937,989</b>	<b>1,002,917</b>
<b>APPLICATION OF FUNDS</b>				
Net Block	97,510	99,385	101,981	105,777
CWIP	13,650	13,650	13,650	13,650
Goodwill & Other Intangible Assets	44,280	44,280	44,280	44,280
Investments	64,530	64,530	64,530	64,530
LT Loans & Advances, Others	71,130	71,130	71,130	71,130
Deferred Tax Assets	5,400	5,400	5,400	5,400
<b>Total Non Current Assets</b>	<b>296,500</b>	<b>298,375</b>	<b>300,971</b>	<b>304,767</b>
Debtors	123,220	135,210	147,386	163,070
Cash & Bank	226,250	248,343	296,422	337,388
Current Investments	99,700	99,700	99,700	99,700
Other Current Assets	87,880	90,032	93,510	97,992
<b>Total Current Assets</b>	<b>537,050</b>	<b>573,285</b>	<b>637,018</b>	<b>698,150</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>833,550</b>	<b>871,661</b>	<b>937,989</b>	<b>1,002,917</b>

## Institutional Equity Research

**Infosys**

IT | India

CMP* (Rs)	1078
Upside/ (Downside) (%)	15
Bloomberg Ticker	INFO IN

**BUY** 

Target Price: Rs1,240

**Cash Flow Statement**

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
PAT	143,540	162,509	162,268	177,193
Non-operating & EO items	(300)	(300)	(300)	(300)
Depreciation	17,030	19,275	20,460	21,713
Working Capital Change	(13,550)	(21,534)	5,239	(4,852)
<b>Cash Flow from Operations (a)</b>	<b>146,720</b>	<b>159,951</b>	<b>187,667</b>	<b>193,754</b>
Capex	(32,220)	(21,151)	(23,055)	(25,509)
Investments	(46,360)	0	0	0
<b>Cash Flow from Investing (b)</b>	<b>(78,580)</b>	<b>(21,151)</b>	<b>(23,055)</b>	<b>(25,509)</b>
Debt Issuance/(Repaid)	0	0	0	0
Share capital Issuance	0	0	0	0
Dividend	(69,390)	(117,006)	(116,833)	(127,579)
<b>Cash Flow from Financing (c)</b>	<b>(69,390)</b>	<b>(117,006)</b>	<b>(116,833)</b>	<b>(127,579)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(1,250)</b>	<b>21,793</b>	<b>47,779</b>	<b>40,666</b>
EO items, others	(99,470)	300	300	300
Closing Cash Balance	226,250	248,343	296,422	337,388
<b>Free Cash Flow</b>	<b>114,500</b>	<b>138,800</b>	<b>164,612</b>	<b>168,245</b>

**Key Ratios**

Y/E March	FY17	FY18E	FY19E	FY20E
<b>Profitability (%)</b>				
EBITDA Margin	27.2	26.8	26.4	26.7
APAT Margin	21.0	23.1	21.1	20.8
RoE	22.0	22.8	21.4	22.0
RoIC or Core RoCE	24.0	25.6	24.6	26.5
RoCE	18.6	18.8	17.6	18.6
<b>Efficiency</b>				
Tax Rate (%)	28.0	21.3	27.0	27.0
Fixed Asset Turnover (x)	3.1	2.9	2.9	2.9
Debtors + Unbilled rev. (days)	85	90	90	90
Payables (days)	3	1	1	1
Cash Conversion Cycle (days)	82	89	89	89
Net Debt/EBITDA (x)	(1.8)	(1.8)	(2.0)	(1.9)
Net Debt/Equity (x)	(0.5)	(0.5)	(0.5)	(0.5)
Interest Coverage (x)	N.A.	N.A.	N.A.	N.A.
<b>Per Share Data (Rs)</b>				
EPS	62.8	71.1	71.0	77.5
CEPS	70.2	79.5	79.9	87.0
DPS	25.3	42.6	42.6	46.5
BV	301.7	321.6	341.5	363.2
<b>Valuation</b>				
P/E	17.2	15.2	15.2	13.9
P/BV	3.6	3.4	3.2	3.0
EV/EBITDA	12.0	11.7	10.7	9.4
OCF/EV (%)	6.6	7.2	8.7	9.1
FCF/EV (%)	5.1	6.3	7.6	7.9
FCFE/mkt cap (%)	4.6	5.6	6.7	6.8
Dividend Yield (%)	2.3	4.0	3.9	4.3



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## Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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